CONIFEX

CONIFEX TIMBER INC.

ANNUAL INFORMATION FORM

For the year ended December 31, 2013

March 27, 2014

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INTRODUCTION

All dollar amounts in this annual information form (this "**Annual Information Form**") are in Canadian dollars, unless otherwise indicated. Our reporting currency is the Canadian dollar. Some figures and percentages may not total exactly due to rounding. Unless otherwise indicated, the information in this Annual Information Form is given as of December 31, 2013.

We have obtained certain information contained in this Annual Information Form concerning the industry in which we operate from publicly available information from third party sources. We have not verified the accuracy or completeness of any information contained in such publicly available information. In addition, we have not determined if any such third party has omitted to disclose any facts, information or events which may have occurred prior to or subsequent to the date as of which any such information became publicly available or which may affect the significance or accuracy of any information contained in any such information and summarized herein.

Certain statements contained in this Annual Information Form constitute forward-looking statements. The use of any of the words "aim", "anticipate", "contemplate", "continue", "estimate", "expect", "may", "might", "will", "could", "project", "should", "believe", "design", "potential", "target", "intend", "outlook", "position" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, no assurance can be given that these expectations will prove to be correct, and the forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form may contain forward-looking statements pertaining to the following: growth and future prospects of our business; results of operations and performance; our perception of the industry or markets in which we operate and anticipated trends in such markets and in the countries in which we do business; timing of completion, if at all, and the costs, benefits and scope of the Power Generation Project (as defined herein); the sufficiency of funding for the Power Generation Project as presently contemplated; our ability to supply our manufacturing operations with wood fibre and the cost of wood fibre; continued positive relations with First Nations groups; realization of the expected benefits of our completed and contemplated capital projects; demand and prices for our products; our ability to develop new revenue streams; the entry into of a new collective labour agreement at our Mackenzie Mills with the USW on satisfactory terms, or at all; and future capital expenditures, including capital expenditures related to the Power Generation Project.

Forward-looking statements reflect our current views with respect to expectations, beliefs, assumptions, estimates and forecasts about our business and the industry and markets in which we operate. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Assumptions underlying our expectations regarding forward-looking statements contained in this Annual Information Form include, among others: that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with our estimated capital expenditures; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; and the general stability of the economic environments within the countries where we conduct operations. The foregoing list of assumptions is not exhaustive.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the following risk factors and those set forth elsewhere in this Annual Information Form:

- fluctuations in prices and demand;
- currency risk;
- availability of fibre and changes in stumpage fees;
- competition;
- operational curtailments;

- risks related to the Power Generation Project;
- capital projects;
- transportation limitations;
- employee retention;
- labour relations;
- regulatory risks;
- combustible dust;
- liquidity risk;
- natural disasters;
- MPB (as defined herein) infestation;
- environment;
- the term of the SLA (as defined herein);
- potential surge tax under the SLA;
- First Nations' claims;
- periodic litigation; and
- tax exposures.

The risk factors referenced herein should not be construed as exhaustive. Except as required under applicable laws, we undertake no obligation to update or revise any forward-looking statements.

Unless specifically noted or the context otherwise requires, when used in this Annual Information Form, the following terms have the meanings set forth below:

(a) "**we**", "**our**", "**us**", the "**Company**" or "**Conifex**" means the consolidated operations of Conifex Timber Inc. and its subsidiaries;

(b) "**AAC**" means allowable annual cut, being the rate at which timber is made available for harvesting in British Columbia;

(c) "**Abitibi**" means Abitibi-Consolidated Company of Canada;

(d) "**BC Hydro**" means the British Columbia Hydro and Power Authority;

(e) "**Board**" means our board of directors;

(f) "**EBITDA**" means earnings before interest, income taxes, depreciation and amortization;

(g) "**Fort St. James Assets**" means the Fort St. James Mill and other forestry and sawmilling assets located in Fort St. James, British Columbia and purchased from the bankruptcy trustee for Pope & Talbot Inc. in August 2008;

(h) "**Fort St. James Mill**" means the sawmill located in Fort St. James, British Columbia and purchased as part of the Fort St. James Assets;

(i) "**FSJ FL**" means the replaceable forest licence A77955 held by us, expiring on April 21, 2026, with an AAC of 640,000 cubic metres permitting the harvest of timber in the Prince George TSA;

(j) "**Mackenzie Assets**" means the Mackenzie Mills and other assets located in or near Mackenzie, British Columbia, purchased from Abitibi in June 2010;

(k) "**Mackenzie FL**" means the replaceable forest licence A15385 held by us, expiring on February 28, 2022, with an AAC of 932,500 cubic metres permitting the harvest of timber in the Mackenzie TSA;

(l) "**Mackenzie Mills**" means the site I and site II sawmills located in or near Mackenzie, British Columbia comprising part of the Mackenzie Assets;

(m) "**Mackenzie TSA**" means the TSA in or near Mackenzie, British Columbia;

(n) "**Prince George TSA**" means the TSA in or near Prince George, British Columbia;

(o) "**SPF**" means softwood lumber derived from spruce, pine and fir;

(p) "**SLA**" means the softwood lumber agreement dated September 12, 2006, between Canada and the United States, as may be amended;

(q) "**THLB**" means timber harvesting landbase, being the area of productive forest available for harvest, as netted down from the total Crown forest landbase to account for wildlife values, parklands, biodiversity, visual quality and so forth;

(r) "**TSA**" means timber supply area, as designated by the Government of British Columbia; and

(s) "**TSX-V**" means the TSX Venture Exchange.

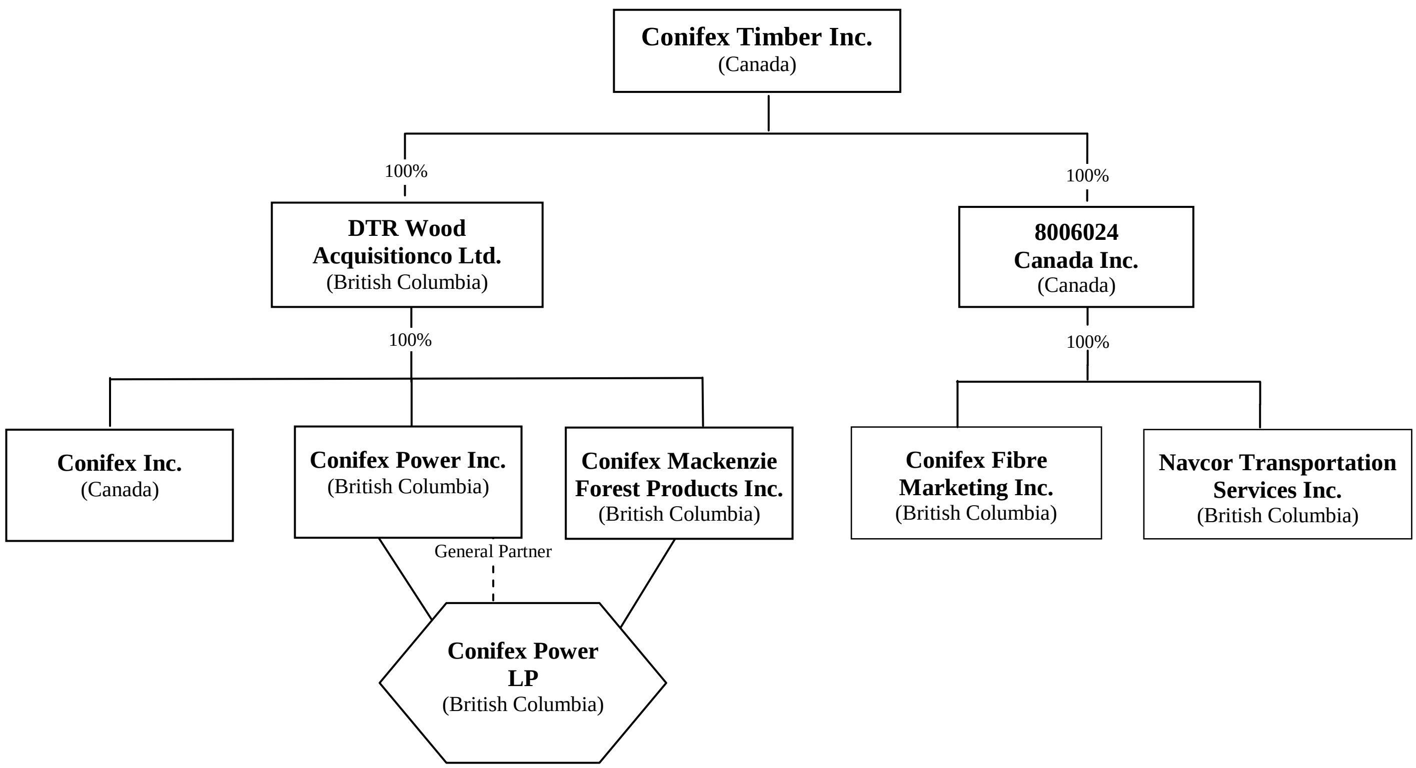
CORPORATE STRUCTURE

General

Our full corporate name is "Conifex Timber Inc.". Our head office address is 980-700 West Georgia Street, Vancouver, British Columbia V7Y 1B6, and our registered and records office address is Suite 1000, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2.

We were incorporated under the *Canada Business Corporations Act* (the "**CBCA**") on May 17, 2007 under the name "West Fourth Capital Inc.". We changed our name to "Conifex Timber Inc." on June 3, 2010.

The diagram below sets out our material subsidiaries and their respective jurisdictions of organization.



DESCRIPTION OF OUR BUSINESS

Business Overview

We are an independent British Columbia based company formed to invest in and operate timber harvesting and sawmilling operations. Our operations currently focus on the interior region of British Columbia. We have also established a bioenergy segment to complement our forestry and sawmilling operations. The main activities of our lumber segment include timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. The main activities planned for our bioenergy segment include creating power generation capacity at our Mackenzie facility to generate renewable energy for commercial sale (the "**Power Generation Project**").

Overview of the Interior British Columbia Softwood Lumber Industry

Canada exports more lumber than any other country in the world. With annual production exceeding 12 billion board feet, the interior region of British Columbia comprises the largest softwood lumber supply region in Canada and accounts for approximately one-half of total Canadian production.

The softwood lumber manufacturing and distribution industry in North America is highly competitive. In North America, the principal factors influencing demand for our products include new residential construction, light commercial construction and repair and remodeling activity in the United States. Drivers of such demand include the age of existing housing inventory, availability of credit and other macroeconomic factors, such as GDP growth, population growth, migration, interest rates, employment levels and consumer sentiment. Customers who buy our lumber generally base purchasing decisions on price, quality and customer service.

Annual housing starts in the United States peaked at 2.1 million units in 2005, but fell approximately 74% to a historic low of about 550,000 units in 2009. Prior to 2008, the U.S. housing market had not experienced a year with total housing starts below 1.0 million since the U.S. Census Bureau began keeping records in 1959.

According to the U.S. Census Bureau, total housing starts in the United States were approximately 609,000 in 2011. The residential construction industry in the U.S. has since staged a steady recovery, as evidenced by year-over-year increases in new housing starts of approximately 18% and 28% in 2013 and 2012, respectively. In 2013, it is estimated that there were approximately 923,000 new housing units started, and, in 2012, it is estimated that there were approximately 780,000 new housing units started. The 2013 increase consisted of a 12% increase in single-family housing starts and a 32% increase in multi-unit starts. Historically, U.S. housing starts have materially influenced 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. U.S. housing starts are forecasted to be approximately 1.1 million units in 2014 and approximately 1.25 million units in 2015, which represent annual increases of 19% and 14%, respectively, compared to 2013 levels. We believe that, over the long-term, the U.S. housing sector has considerable growth potential. It has been estimated that the normal level of U.S. single-and multi-family housing starts is 1.5 million units per year, a level consistent with the 50-year historical average.

Softwood lumber shipments from British Columbia to the United States totaled approximately 5.8 billion board feet in 2013, equivalent to approximately 53% of all Canadian lumber exports to the United States. The shipments from British Columbia represented approximately 14% of total United States lumber consumption of approximately 40 billion board feet in 2013.

China represents the second largest import market for softwood lumber after the United States. China's demand for softwood lumber includes a significant market for use in industrial applications, such as concrete forming and packaging, as well as a considerable potential to consume higher-grade lumber in wood-frame construction. China has increasingly relied on log and lumber imports to meet its large volume needs, because the availability of domestic log supply in China generally constrains production of softwood lumber. Over the past decade, lumber shipments from British Columbia to China have grown from nominal levels of approximately 200 million board feet per year to over 3 billion board feet per year. Presently, British Columbia holds approximately a 46% share of total softwood lumber commodity products imported by China.

General Development

Our long-term objective is to build Canada's premier, next-generation forest company that is a world leader in responsibly maximizing fibre value. To achieve this ambitious objective, we intend to develop new revenue streams around our core lumber business. Our potential to emerge as a significant participant in the bio-economy is underpinned by the strong fundamentals of our softwood harvesting and manufacturing business and by our belief that new and profitable uses will develop for in-forest woody biomass that is not currently being accessed.

Our near-term business strategy seeks to capitalize on our existing sawmilling and forestry assets, which are located in relatively abundant fibre supply regions, and to build a margin-focused lumber business of sufficient size and scale to compete successfully with the best mills in North America. We also intend to focus on the completion and operation of our complementary Power Generation Project, which builds on the low-cost legacy infrastructure at our Mackenzie site. To this end, our strategy involves:

- maintaining and further expanding access to plentiful supplies of quality sawlogs at competitive prices;
- operating efficient lumber converting facilities;
- investing in high return capital projects to expand production volumes and lower cash conversion costs;
- producing and selling high-value softwood lumber in demand by North American and offshore markets;
- developing superior marketing and logistics capabilities;
- optimizing revenues from the sale or utilization of by-products and residues from our logging and sawmilling activities;
- producing renewable energy for commercial sale; and

- pursuing opportunities to develop new revenue streams around our core lumber business.

We seek to manage our business with a focus on EBITDA and responsibly maximizing the value of our fibre resources through the production cycle, from the planning of our logging operations and log purchases to the production, sale and marketing of our lumber products and residuals.

The following summarizes the most significant events relating to the development of our business and, in particular, over the past three fiscal years.

Acquisition and Start-Up of the Fort St. James Mill

In August 2008, we purchased the Fort St. James Assets. The previous owner had idled the Fort St. James Mill in September 2007 due to market conditions and had invested only a nominal amount in the facility in the years preceding our acquisition. We commenced manufacturing operations at the Fort St. James Mill on a one-shift basis in March 2009. Subsequently, we committed to an approximate $30 million capital expenditure program (the "**FSJ Capex Program**"), which focused largely on improving the finishing processes and upgrading the drying capabilities at this facility. We completed the FSJ Capex Program and commenced a second sawmill shift at the Fort St. James Mill in March 2011. The Fort St. James Mill has approximately 310 million board feet of annual lumber capacity on a two-shift basis. For further information respecting the FSJ Capex Program, see the section of this Annual Information Form entitled "*Lumber Segment – Fort St. James Mill*" below.

Acquisition and Start-Up of the Mackenzie Mills

In June 2010, we completed the acquisition of the Mackenzie Assets from Abitibi. The Mackenzie Assets included two 2-line sawmills, including planer mills, with a combined annual production capacity of approximately 435 million board feet of lumber, a forest licence with an AAC of 932,500 cubic metres, a steam/power plant and associated turbine and boiler and a paper mill (excluding the headbox).

The previous owner of the Mackenzie Assets had generally not operated the assets on a continuous basis since December 2007 due to market conditions, although the sawmills and planer mills were kept in operating and start-up condition. In November 2010, we commenced lumber production on a one-shift basis at the site II sawmill at Mackenzie (the "**Site II Mackenzie Mill**") with lumber shipments following in early December. We started a second shift at the Site II Mackenzie Mill in late March 2011. The Site II Mackenzie Mill has approximately 215 million board feet of annual lumber capacity on a two-shift basis. The currently idled Site I sawmill complex, as presently constituted, has production potential of approximately 220 million board feet per year.

Power Generation Project

In March 2011, we initiated the Power Generation Project at our Mackenzie sawmill site. The Power Generation Project consists of constructing a 36 megawatt biomass power plant in Mackenzie, British Columbia, adjacent to our currently idled Site I sawmill complex and within an existing building with supporting infrastructure that formerly housed a newsprint production facility. We expect that the Power Generation Project, once completed, will provide a stable and diversified source of revenue in the bioenergy segment, as well as an assured market for a portion of the sawmill residuals produced by our mills in the process of manufacturing lumber. During 2011 and 2012, we completed an electricity purchase agreement (the "**EPA**") and related load displacement agreement (the "**LDA**") with BC Hydro and key agreements with major suppliers for the Power Generation Project and began construction activities.

After a pause in development through the first eight months of 2013, we resumed construction of the Power Generation Project in September 2013 upon the commitment of the Project Financing (as defined below). In late November 2013, we announced the completion of the Project Financing, which will provide up to $102.7 million for the Power Generation Project, including a development and construction loan of up to $82 million, a letter of credit facility and a revolving operating facility. For further details on the Project Financing, see the section of this Annual Information Form titled *"Description of Our Business – General Development – Financings – $102.7 million Power Generation Project financing*".

The project is currently on budget and proceeding as scheduled with an expected commercial operation date in the third quarter of 2014.

Labour agreement with United Steel Workers

The United Steel Workers Union (the "**USW**") represents our unionized employees at the Fort St. James and Mackenzie operations. Both locations ratified a collective agreement in September 2010 (the "**2010 Collective Agreemen**t"), which expired on June 30, 2013. In March 2014, we settled a new five-year collective agreement with the USW at the Fort St. James Mill. The agreement has a retroactive effect to July 1, 2013 and expires on July 1, 2018. We are currently in discussions with the USW for a new collective agreement at the Mackenzie Mills and currently expect to reach a five-year agreement similar to that ratified at the Fort St. James Mill.

Acquisition of Welco and Navcor

In December 2011, we completed the acquisitions of the commodity lumber distribution business previously owned and operated by Welco Lumber Corp. ("**Welco**") and the transportation and logistics business previously owned and operated by Navcor Transportation Services Inc. ("**Navcor**"). We paid an aggregate purchase price of approximately $1.6 million plus the book value of certain specified inventory on the date of closing of the acquisitions and agreed to pay certain commissions for a period of three-years thereafter. We previously outsourced our marketing, sales and logistics functions under a three-year lumber sales agreement with Welco which expired in November 2011. As part of the purchase agreement, we retained the services of key personnel.

We operate our lumber distribution business through our wholly-owned subsidiary Conifex Fibre Marketing Inc. and maintain previously established trading relationships. The transportation and logistics business continues to operate as Navcor. We operate both companies as independent profit centres.

Financings

We have completed the following financings in the last three fiscal years.

$12 million senior secured financing

On December 1, 2011, we completed a senior secured financing (the "**Senior Secured Financing**") pursuant to which we issued promissory notes (the "**Secured Notes**") in the aggregate principal amount of $12 million pursuant to a note purchase agreement dated November 22, 2011 with Deans Knight Capital Management Ltd. (the "**Note Purchase Agreement**"). In December 2012, the Note Purchase Agreement was amended to extend the expiry of the Secured Notes from December 31, 2012 to December 31, 2013. As additional consideration for the Senior Secured Financing, we issued common share purchase warrants which, as adjusted in accordance with their terms, entitle the holders thereof to purchase up to an aggregate of 331,212 common shares of our unissued capital stock at a price of $9.33 per share until December 31, 2014. In April 2013, we redeemed all of the Secured Notes by paying their par value plus accrued interest to the date of redemption.

$28.5 million private placement financing

On February 16, 2012, we completed an offering (the "**Brokered Placement**") of 3,860,700 of our common shares, which included the exercise by the underwriters of their over-allotment option, resulting in aggregate gross proceeds of approximately $27 million. Raymond James Ltd. and a syndicate of underwriters, including TD Securities Inc., CIBC and Salman Partners Inc., conducted the Brokered Placement on a "bought deal" private placement basis.

Concurrent with the Brokered Placement, we completed a non-brokered private placement of 214,286 common shares to certain of our insiders for aggregate gross proceeds of approximately $1.5 million.

$9.3 million private placement financing

On December 18, 2012, we completed a bought deal offering of 1,329,566 units resulting in aggregate gross proceeds of approximately $9.3 million. Each unit consisted of one common share and one-half of one common share purchase warrant at a subscription price of $7.00 per unit. Each whole warrant entitles the holder thereof to acquire one common share at an exercise price of $9.00 at any time until December 17, 2014.

$5 million senior secured financing

On February 21, 2013, our wholly-owned subsidiary, Conifex Power Limited Partnership ("**CP Partnership**"), completed a senior secured financing (the "**CP Financing**") pursuant to which CP Partnership issued promissory notes in the aggregate principal amount of $5 million. The promissory notes bore interest at a rate of 12% per annum. As additional consideration for the loan, we issued non-transferrable common share purchase warrants entitling the holders thereof to purchase up to an aggregate of 160,417 of our common shares at a price of $9.50 per share until February 21, 2016. In September 2013, we redeemed the promissory notes in full without penalty for early redemption.

$25 million senior secured revolving asset backed credit facility

On April 2, 2013, we announced that we completed a $25 million senior secured revolving asset backed credit facility (the "**Secured Facility**") with a leading Canadian chartered bank. The Secured Facility is available for a term of 3 years. We used a portion of the Secured Facility, together with cash on hand, to repay the Secured Notes in full, as described above. We intend to use the Secured Facility for working capital in our lumber segment and other permitted general corporate purposes.

$30 million senior secured financing

On September 18, 2013, we announced that we completed a $30 million senior secured financing (the "**Senior Notes Financing**") pursuant to which we issued promissory notes in the aggregate principal amount of $30 million to Vertex One Asset Management Inc. The promissory notes expire on September 18, 2017 and bear interest at a rate of 8% per annum. As additional consideration for the loan, we issued transferrable common share purchase warrants entitling the holders thereof to purchase up to an aggregate of 1,060,000 of our common shares at a price of $8.25 per share until September 18, 2017.

$102.7 million Power Generation Project financing

On November 29, 2013, we announced that CP Partnership completed a $102.7 million secured project financing facility (the "**Project Financing**") for the Power Generation Project with a syndicate of four institutional lenders led by a Canadian chartered bank. The Project Financing may provide an aggregate of up to $102.7 million and includes a development and construction loan for the Power Generation Project of up to $82 million (the "**Construction Facility**"). The Construction Facility consists of a construction loan which will mature approximately 12 months from the closing date and convert into an amortized term loan having a term of 5 years once the conditions to conversion are satisfied, including substantial completion of construction of the Power Generation Project. The balance of the Project Financing consists of a letter of credit facility primarily to secure certain obligations of CP Partnership under its existing LDA and a $1.75 million revolving operating facility.

The Construction Facility consists 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 to fixed interest rates. The Project Financing is primarily secured by a first priority security interest on our existing and after acquired bioenergy assets.

Recent Developments

On February 3, 2014, we announced that we had 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 complementary to ours. Lignum provides extensive market reach in the North American market through a network of established inventory locations. We paid an aggregate purchase price of approximately US$4 million for Lignum, which we funded from our existing available cash.

Competitive Conditions

The markets for our products are highly competitive on a global basis, and producers compete primarily on the basis of price. We compete against many producers, a number of whom have larger capacity than us when measured by the number of mills owned and operated. Competitors include those with greater financial resources, and some may be lower cost producers than us.

Factors influencing our competitive position include, among other things, the availability, quality and cost of raw materials, including fibre, energy and labour, and the efficiency and productivity of our mills in relation to our competitors. Like the balance of the Canadian forest products industry, we compete in an international market subject to currency fluctuations and global business conditions. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products.

We believe that we have the following competitive strengths:

- secure and high quality timber base;
- positive relations with First Nations groups;
- cost-effective conversion facilities at our mills;
- committed Board and management team; and
- low asset acquisition costs.

Secure and High Quality Timber Base. The availability of an economical fibre supply is one of the most important factors affecting the profitability of Canadian SPF producers. A high degree of fibre self-sufficiency provides a key competitive element, because the direct control and management of timber resources may partially insulate a lumber producer from uncertainties in the market for fibre. Presently, the sawlog harvest levels established for the Mackenzie TSA and the Fort St. James forest district considerably exceed the demand for sawlogs from the sawmills located in these regions. We believe that we have an excellent timber base, with a significant amount of high-quality fibre within economic haul distances of each of our mills. The timber resources to which we have access consist of two forest licences with AACs of 640,000 and 932,500 cubic metres of sawlogs, respectively. Industry participants generally consider forest licences as one of the most secure forms of tenure granted by the Province of British Columbia to harvest timber.

We expect to supply our manufacturing operations primarily from fibre resources held under long-term agreements with the Province of British Columbia, which provide a secure supply of fibre at a manageable cost and on a sustainable basis. We expect to purchase the balance of our fibre requirements from BC Timber Sales, timber tenures controlled by First Nations and a smaller amount from other open market vendors. We expect to be able to maintain two-shift operations at our Fort St. James Mill and Site II Mackenzie Mill after the supply of mountain pine beetle ("**MPB**") killed timber declines.

Positive Relations with First Nations Groups. Our operations have enjoyed positive relations with local First Nations groups. At Fort St. James, these relationships have included the involvement of three First Nations groups as shareholders, First Nations employment in silviculture, harvesting and converting operations, and the involvement of First Nations groups as customers for the sale of certain by-products. We expect these relationships to become increasingly important in the future in order to keep our operations supplied with sufficient sawlog volumes to maintain capacity operations at our mills.

Cost-Effective Conversion Facilities. The previous owners of the Fort St. James Mill and the Mackenzie Mills, respectively, lagged in their capital investments at the mills, and we believe the mills are currently in the early stages of their capital development cycles. We believe that, following the completion of appropriate capital programs, our Fort St. James Mill and Mackenzie Mills have the potential to produce cash flows in line with the top performing mills in the interior region of British Columbia. Our mills' processing flexibility and two-line configurations position them to emerge as cost-effective producers of a variety of high quality lumber products. The two-line configuration of each of our mills allows efficient processing of the available log profile.

For further details on planned capital improvements in the lumber segment, see the section of this Annual Information Form titled "*Description of Our Business – Lumber Segment – Longer-term Capital Improvements*".

Committed Board of Directors and Management Team. We have an accomplished leadership and management team with substantial experience in the forest products industry and strong capability to develop and execute long-term strategic objectives. Our senior operations management team has the requisite diversity and depth of experience in the forest products industry to effectively carry out the full range of activities critical to our business, including timber planning, harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. Our leadership and management team is committed to building a premier, next-generation forest company.

Low Asset Acquisition Costs. We believe that we arranged attractive purchase prices for both the Fort St. James Assets and the Mackenzie Assets. In particular, we acquired the Fort St. James Assets for approximately one-third of the price paid for them by their previous owner in 2005.

Forest Resources

Timber is a renewable resource, in contrast to non-renewable natural resources such as minerals or oil and gas. Timber resources, if managed properly and with appropriate silviculture investments, have the potential to yield a fairly predictable and stable resource volume over an indefinite period of time. We believe that our timber operations operate in an ecologically sound and environmentally sustainable fashion.

Timber Tenures

Crown land comprises approximately 94% of all lands in the Province of British Columbia. Under the *Forest Act* (British Columbia) (the "**Forest Act**") and the *Forest and Range Practices Act* (British Columbia), the Ministry of Forests, Lands and Natural Resource Operations (the "**Ministry of Forests**") regulates forestry operations on these lands and uses a system of timber tenures to provide the private sector with controlled access to forest resources. The majority of Crown timber tenures provide licence holders with long-term access to timber through "Replaceable Forest Licences". The Crown charges a stumpage fee on timber harvested from Crown lands.

We hold two long-term Crown timber tenures through Replaceable Forest Licences in the northern interior region of British Columbia. The Province issues Replaceable Forest Licences for a term of 15 years. Pursuant to the Forest Act, subject to the satisfaction of certain performance criteria, the Ministry of Forests must offer the licences for replacement for additional terms of 15 years. Compliance with applicable forest legislation and the prompt payment of dues, fees and stumpage charges form the basis of the performance measure.

Replaceable Forest Licences are considered volume-based, meaning that, within the area of a TSA, there are no non-exclusionary operating areas for the benefit of any licencee, including us. The FSJ FL, contained within the Prince George TSA, has an AAC of 640,000 cubic metres, and the Mackenzie FL, contained within the Mackenzie TSA, has an AAC of 932,500 cubic metres.

Our forest licences contain an estimated 156 million cubic metres of merchantable timber in areas readily accessible through a vast network of roads. Our operating areas in both TSAs include nearly 10,000 kilometres of access roads maintained and/or monitored by our staff and our contractors. A boom and tow log delivery system is also in place at Williston Lake in the Mackenzie TSA to help us collect and/or contain our timbered logs in this area.

Timber Supply Areas

Our forestry and logging operations straddle two adjoining TSAs, the Mackenzie TSA and the Prince George TSA. The combined productive Crown forest area encompassed by these two TSAs forms the largest in British Columbia at approximately 12 million hectares, with a combined AAC of 15,550,000 cubic metres.

The Mackenzie TSA, located wholly within the Mackenzie Forest District, has an AAC of 3,050,000 cubic metres. The Mackenzie TSA has a THLB estimated at approximately 14,500 square kilometres (approximately 7% of the Provincial total). The Mackenzie TSA contains an estimated 287.5 million cubic metres of current mature and merchantable coniferous timber, including 108 million cubic metres within our current operating areas. Our operating areas within the Mackenzie TSA have a timber profile comprised of approximately 33% spruce, 49% lodgepole pine, 9% balsam fir and 9% other.

The Prince George TSA has an AAC of 12,500,000 cubic metres and is comprised of three forest districts: Prince George, Vanderhoof and Fort St. James. The Prince George TSA has a THLB estimated at 31,000 square kilometres (approximately 14% of the Provincial total). The Prince George TSA contains an estimated 667.5 million cubic metres of current mature and merchantable coniferous timber, including 48 million cubic metres within our current operating area. Our operating areas within the Prince George TSA, located wholly within the Fort St. James Forest District, have a timber profile comprised of approximately 36% spruce, 49% lodgepole pine, 14% balsam fir and 1% Douglas fir.

Fibre Supply

Our operations depend on the consistent supply of sawlog fibre. Wood fibre is the single largest input cost and typically accounts for over 50% of the cash cost of producing lumber. Our fibre costs are subject to variation depending on various factors, including harvesting locations and delivery distances from forest to mill, weather conditions and normal competitive market pressures relating to harvesting and hauling contractors. Wood fibre supply is subject to regional market influences. We meet our fibre requirements primarily with sawlogs harvested from our own timber tenures, supplemented by logs purchased from third parties. Our forestry department is responsible for ensuring an adequate supply of suitable logs for our sawmills, and various independent contractors conduct logging. We plan and co-ordinate all of the sawlog production from the various operating sites.

Our Fibre Requirements

We meet our fibre requirements primarily with logs harvested from our own timber tenures, supplemented by logs purchased on the open market. As presently constituted, at full two-shift sawmilling capacity, we are able to provide from our own tenures approximately two-thirds of our presently required sawlog furnish at the Fort St. James Mill and 100% of our presently required sawlog furnish at the Site II Mackenzie Mill. Open market log purchases come from a host of sources, but primarily from the following:

- BC Timber Sales (Crown managed and auction-based);
- First Nations (various forms of Crown tenures issued to First Nations groups);
- community forests (area-based Crown tenures issued to qualifying communities);
- woodlots (area-based Crown tenures issued to qualifying individuals); and
- non-replaceable forest licences (bid-tendered or direct awarded to qualifying companies or First Nations groups).

Forest Management Strategy

We employ progressive forest management practices aimed at enhancing timber yields while protecting diverse forest values and maintaining healthy forest ecosystems. To provide independent verification of the sustainability of our forest management activities and legality of our timber procurement systems, we have achieved certification under third-party, audited, internationally recognized environmental standards.

All of the Crown timberlands on which we conduct harvesting operations are managed on a sustainable harvest basis, which means that the volume of timber harvested over a rotation period (typically 70-100 years) is planned not to exceed the volume of incremental growth over the same period. Forest management begins at a high level planning stage, where First Nations and public input is solicited. Our professional foresters also periodically prepare a Forest Stewardship Plan ("**FSP**") for each of our harvesting areas for approval by government. Once the FSP is approved, site specific assessments are prescribed that outline a suite of forest management options designed to contribute to the successful harvest and regeneration of the stand.

Professional foresters prescribe forest management activities at the cut-block level in a "site plan", which includes pre-harvest assessments (e.g. archaeological, visual and terrain stability), harvest methods and road development, post-harvest assessments (e.g. site preparation and planting prescriptions), regeneration performance and stocking surveys and other silviculture activities as necessary to achieve a "free-growing" stand.

We have designed an environmental management system which incorporates internal audits, activity monitoring and system reviews and focuses on continual improvement. In addition, we employ an independent consulting firm, KPMG, to perform annual audits of our forest practices. The audit system requires an assessment of all forest management aspects and includes both an office and field review. Audits also include follow-up review of previous audit findings to ensure that any suggested remedial actions or improvements resulting from them are adequately addressed. A final audit report is subsequently prepared and submitted to our senior management. We prepare remedial action plans, if necessary, to address audit findings and submit these to KPMG for review and approval. KPMG publishes the external audit reports and makes them available to the public on KPMG's website.

Logging Contractors and Log Suppliers

Independent logging contractors carry out all harvesting and associated road building activities on our Replaceable Forest Licences. Prior to entering into a harvesting agreement, we require that logging contractors achieve certification as a "Safe Company" with the British Columbia Forest Safety Council. To achieve such certification, our logging contractors, and any subcontractors they hire, must adopt and implement appropriate health and safety programs. We also require our logging contractors to report to us all safety incidents requiring medical treatment and any close calls that could have led to serious injury, in addition to statutorily required reporting to WorkSafeBC. We monitor, review and provide feedback on logging contractor safety performance on a regular basis through regular inspections of logging contractor operations.

We require our logging contractors to abide by the requirements set forth in our environmental management system, as well as all relevant federal and provincial acts and regulations. In addition, we require that our logging contractors provide training to their employees to ensure that they understand the requirements of the environmental management system. Logging contractors and log suppliers must also conform to the requirements of our environmental certifications. We monitor and audit logging contractor and log supplier environmental performance and aim to take appropriate steps where necessary to help ensure compliance with our environmental certifications.

We require our logging contractors and log suppliers to comply with our log quality program. This program outlines the standards for log manufacturing and delivery to our manufacturing facilities and other third party log buyers. We review the log quality program regularly with our contractors and suppliers to help ensure achievement of proper utilization and value extraction of the forest resource and adherence to log quality specifications.

All harvesting on Crown timber tenures must meet the standards of the *Forest and Range Practices Act* for the protection of forest values. FSPs approved by the Ministry of Forests guide harvesting activities. These FSPs and major amendments are made available to First Nations and the public for review and comment. Site plans are completed for each proposed harvest block, which detail measures for the protection of other resources and reforestation obligations. The Ministry of Forests issues cutting and road permits that grant us the legal authority to harvest and utilize timber.

Reforestation

We promptly reforest all Crown lands that we harvest, in accordance with the standard required under the *Forest and Range Practices Act*. Successful regeneration must occur within a specified time period and at a prescribed minimum density level. The regeneration commitment requires established stands of suitable tree species to reach a "free-growing" state unimpeded by competition from other plants, a process that typically takes 12-20 years.

We monetarily accrue for all future reforestation obligations on Crown lands at the time of harvest, and we annually adjust the estimated amounts to incorporate the latest information and conditions of each regenerated area required to achieve a free-growing state. Once an area achieves a free-growing state, our foresters formally "declare" the area to the Crown. Once the Crown accepts these declarations, we are generally relieved of any further obligations. The Ministry of Forests monitors regeneration of all logged areas on Crown lands, and KPMG audits our Company against the standards of the *Sustainable Forestry Initiative* (SFI®) (the "**SFI**").

Site-specific silviculture techniques are used to ensure prompt forest regeneration after harvesting. We generally meet annual seedling requirements to fulfill our reforestation commitments through sowing our own seed, which we collect in contract nurseries. In addition, we may supplement seedling requirements by purchasing high-yield seed from other seed orchards. We typically use genetically improved seedlings where available.

Forest Practices Regulations

We train our employees to carry out their daily activities in compliance with the Forest Act, the *Forest and Range Practices Act* and all other applicable statutes and regulations. We contractually require all of our contractors and consultants to abide by applicable forestry legislation, including monitoring of operations and reporting of incidents.

Environment

To our knowledge, our operations meet the standards for environmental protection set out in the *Forest and Range Practices Act* and its associated regulations. We must also comply with various other provincial legislation, such as the *Wildfire Act, Workers Compensation Act* and the *Water Sustainability Act* (British Columbia), and federal legislation, such as the *Transportation of Dangerous Goods Act*, the *Fisheries Act* and the *Species at Risk Act*.

Forest Protection

Forest protection for areas applicable to our forest licences is carried out to minimize losses through fire, insect infestation and disease. The Protection Branch of the Ministry of Forests provides fire suppression services for which we, as a holder of forest licences, are assessed an annual fee based on our AAC.

We prepare an annual emergency preparedness and response plan that outlines key personnel contact information, weather station monitoring, fire drills, fire preparedness activities and fire suppression techniques. We also maintain centralized fire equipment caches for each applicable forestry and sawmilling operation. Our forestry staff and our logging contractors are trained and equipped to suppress wildfires and are instructed to assist Protection Branch personnel as necessary.

Forest Policy and Regulation

Allowable Annual Cut Determination

The Chief Forester for British Columbia determines the AAC for each TSA. Factors considered in the determination of the AAC include forest composition and expected rate of growth, length of time to re-establish a forest after harvesting, silviculture treatments, timber utilizations standards, constraints on the extraction of timber, economic and social objectives of government and forest health. Tenure holders may vary harvest levels from year to year provided that the cumulative harvest within a cut control period, typically five years, does not exceed the cumulative AAC for the period by greater than 10%. Overcuts at the end of the cut control period count as volume harvested in the subsequent cut control period. Overcuts of more than 10% may incur monetary penalties. If the volume of timber harvested in the cut control period is less than the cumulative AAC for that period, the tenure holder cannot harvest the undercut volume in the subsequent period. The Ministry of Forests may, however, choose to dispose of the undercut volume to a party other than the tenure holder.

In response to the MPB epidemic, the AAC for the Prince George TSA temporarily increased in recent years from its previously established level of 9.3 million cubic metres to 14.9 million cubic metres. The Chief Forester for British Columbia has since published a subsequent AAC determination for the Prince George TSA, effective January 11, 2011, to reduce the AAC to 12.5 million cubic metres. In addition, the Chief Forester prescribed a partition of the cut limiting non-pine species to no more than 3.5 million cubic metres.

The Ministry of Forests is currently reviewing the AAC for the Mackenzie TSA. Although the Chief Forester has not released the final determination, the Ministry of Forests has indicated that an increase from the current harvest level in the Mackenzie TSA to reflect MPB affected stands is appropriate. It is unclear at this time, however, how the additional timber volume, if any, would be allocated to industry participants in the area.

Stumpage Charges

In British Columbia, where the Crown owns 94% of the land, harvest of the land base (Crown land) generates revenue for the Crown. The Government of British Columbia periodically establishes fees known as "stumpage" paid for the right to harvest timber on Crown forests.

The Crown uses data collected by timber cruisers to calculate stumpage rates or total stumpage values, which data ultimately provides for an assessment of the volume and value of the trees, the estimated costs of logging and delivery and the market value of the timber. The Crown levies stumpage fees either at the time of felling (for cruise-based stands) or upon scaling (for scale-based stands).

On July 1, 2010, the Ministry of Forests and Range (now the Ministry of Forests) implemented changes to the interior market pricing system for timber. These changes addressed issues raised by the MPB epidemic and included the introduction of stand as a whole pricing with cruise-based billing for MPB damaged timber. From a stumpage distribution perspective, the changes included a transition over two years to a system more sensitive to market forces. For stands with 35% or more MPB damaged timber, a single stumpage rate was established with billing based on cruise rather than scaling. For these stands, a determination of log grades is no longer necessary. These changes appear to have resulted in, among other things, increased overall market sensitivity of interior timber pricing and improved utilization of low value material.

Prior to July 1, 2010, the United States had raised concerns regarding the pricing of timber in the interior region of British Columbia. On October 8, 2010, the U.S. Trade Representative wrote to Canada's International Trade Minister to request consultations under the SLA with respect to allegations of under-pricing of timber in the interior region of British Columbia and circumvention of export measures provided for in the SLA. On July 18, 2012, the London Court of International Arbitration unanimously ruled in favour of Canada and British Columbia and rejected the U.S. Trade Representative's claim that the SLA had been breached.

First Nations Claims

The potential existence of First Nations title or rights over substantial portions of British Columbia, including the areas of our timber tenures, has created uncertainty with respect to property rights and natural resource development in British Columbia. In 1997, the Supreme Court of Canada (the "**SCC**") determined that First Nations may possess rights in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with those rights. Such treaties cover very few areas of British Columbia.

In 2004, the SCC confirmed that, in certain circumastances, the Crown must consult with First Nations before authorizing activity that might infringe on their interests and must, when appropriate to do so, seek to accommodate those interests by minimizing interference with them. Authorizations requiring consultation may include approval of cutting permits and required ministerial action relating to the transfer or renewal of Crown timber tenures. The process of consultation and, when appropriate, accommodation currently lacks clear standards, creating some uncertainty with respect to Crown timber harvesting rights held by forestry companies.

We rely on provincial governments to adequately discharge obligations to First Nations in order to preserve the validity of actions dealing with public rights, including the granting of Crown timber harvesting rights. The negotiation of treaties with First Nations and further judgments of the courts may alleviate this uncertainty. However, as the jurisprudence and government policies respecting First Nations title and rights and the consultation process continue to evolve, we cannot at this time predict whether First Nations claims will have a material adverse effect on our timber harvesting rights, on our ability to exercise or renew them, or our ability to secure other timber harvesting rights in the future.

Environmental Protection

Our manufacturing operations are subject to environmental protection laws and regulations. We develop and maintain internal programs, including incurring ongoing capital expenditures, if necessary, to help ensure that our operations comply with applicable laws and standards and to address any instances of non-compliance. We are committed to the responsible stewardship of the environment throughout our operations. We aim to meet this commitment by practicing forest management practices that recognize ecological processes and diversity. We also support integrated use of the forests by designing and operating our facilities to comply with or surpass regulatory requirements, by setting environmental objectives and targets to reduce the risk of pollution and to achieve improvements in environmental performance and by promoting environmental awareness throughout all of our operations.

Presently, we retain an SFI certification for our environmental management systems for both our Fort St. James and Mackenzie forest operations.

To our knowledge, our forest operations substantially comply with environmental requirements, except for incidents which have not had, and are not expected to have, a material effect on us or our operations.

Lumber Segment

We currently operate the Fort St. James Mill and the Site II Mackenzie Mill. The mills manufacture kiln-dried lumber primarily for the construction markets in the United States, Canada and Japan and the remanufacturing market in China. Our primary business activities include timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber.

Fort St. James Mill

The Fort St. James Mill is located in Fort St. James, British Columbia, a community approximately 160 kilometres northwest of Prince George, British Columbia. The Fort St. James Mill has approximately 310 million board feet of annual lumber capacity on a two-shift basis, as well as timberland operations with 640,000 cubic metres of harvestable AAC from high-quality Crown-owned tenures. The FSJ FL can provide approximately 64% of the Fort St. James Mill's annual sawlog requirements, with the balance of the mill's sawlog requirements acquired from third parties and through management agreements with other forest tenure holders. We own the property on which the Fort St. James Mill operates and the plant and equipment used in its operations, other than certain leased mobile equipment and vehicles.

The previous owner had idled the Fort St. James Mill in September 2007 due to market conditions and had invested only a nominal amount in capital improvements in the facility in the years preceding our acquisition. We commenced manufacturing operations at the Fort St. James Mill on a one-shift basis in March 2009. In March 2011, we completed, largely within budget, our $30 million FSJ Capex Program, which focused primarily on improving the finishing processes and upgrading the drying capabilities at this location. The benefits realized from the completion of the FSJ Capex Program included enhancement of lumber revenue from higher lumber recoveries as a result of the addition of automated lumber grading, cut-in-two and improved drying capability and a reduction in finishing and drying costs. The improved productivity in the finishing process facilitated the addition of a second sawmill shift in March 2011. We funded the FSJ Capex Program through a combination of an $8.6 million

Community Adjustment Fund loan sponsored by the Northern Development Initiative Trust ("**NDIT**"), training and capital improvement grants from the NDIT and cash on hand.

The Fort St. James sawmill was converted from a three-line to two-line operating format in the first quarter of 2012 to increase production efficiencies and further reduce unit cash conversion costs. We largely recaptured the production volume forfeited by the conversion to the two-line operating format by the fourth quarter of 2013. The Fort St. James Mill produced approximately 285 million board feet of finished lumber in 2013.

Mackenzie Mills

The Mackenzie Mills are located in Mackenzie, British Columbia, a community approximately 192 kilometres north of Prince George, British Columbia. The Mackenzie Mills have a combined 435 million board feet of annual lumber capacity on a two-shift basis, as well as timberland operations with 932,500 cubic metres of high-quality harvestable AAC from Crown-owned land. The Mackenzie FL can provide all of the Site II Mackenzie Mill's annual sawlog requirements as presently constituted (operating on a two-shift basis). In November 2011, we purchased the properties we previously leased on which the Mackenzie Mills are located. We also own the plant and equipment used in their operations, other than certain leased mobile equipment and vehicles.

In April 2012, we completed the installation of an automated lumber grading system at the Site II Mackenzie Mill on time and on budget at a cost of approximately $3 million. Benefits realized from the completion of the upgrade have included an improvement in lumber recoveries and a reduction of labour and related costs. Subsequent capital improvement projects have focused primarily on the replacement and upgrade of aging equipment and safety related and asset protection projects.

Due to market conditions, the previous owner generally did not operate the Mackenzie Assets on a continuous basis after December 2007, although it kept the sawmills and planer mills in operating and start-up condition. Portions of the assets were operated on an interim basis in late fall 2009 and the first quarter of 2010. In November 2010, we commenced lumber production on a one-shift basis at the Site II Mackenzie Mill with lumber shipments following in early December 2010. We started a second shift at the Site II Mackenzie Mill in late March 2011. The Site II Mackenzie Mill produced approximately 214 million board feet of finished lumber in 2013.

Longer-term Capital Improvements

The previous owners of the Fort St. James Mill and the Mackenzie Mills, respectively, lagged in their capital investments at the mills, and we believe the mills are currently in the early stages of their capital development cycles. We believe that, with the completion of appropriate capital programs, our Fort St. James Mill and Mackenzie Mills have the potential to produce cash flows in line with the top performing mills in the interior region of British Columbia. Our mills' processing flexibility and two-line configurations position them to emerge as cost-effective producers of a variety of high quality lumber products. The two-line configuration of each of our mills allows efficient processing of the available log profile.

During 2013, our capital projects in the lumber segment were 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. Once full operational rates are reached in the first quarter of 2014, the cumulative capital improvements are expected to result in the continuation of positive trends in key operating performance metrics, including a further improvement in unit cash conversion costs.

We are working to complete detailed longer-term plans to upgrade the Fort St. James Mill and to optimize the potential of the Mackenzie Mills. We expect our longer-term plans for the Mackenzie Mills will incorporate the expected harvest levels for the Mackenzie TSA, which are currently being reviewed by the Ministry of Forests.

Products from our mills

Lumber

Our mills principally manufacture finished softwood lumber milled from SPF logs. The lumber produced by our mills typically ranges in size from two by four inches to two by twelve inches and in lengths from six feet to twenty feet. Our mills produce a variety of grades ranging from lower grades, such as economy and #3, to higher grades, such as #2 & Better, Select and J Grade.

By-Product

The process of manufacturing lumber results in approximately 50% of each sawlog producing lumber and 50% ending up as by-products or residues. By-products include wood chips, trim blocks, sawdust, shavings and bark. By-products are typically sold to customers within a close geographical range to minimize freight costs, which can be a substantial component of the total costs incurred in the sale of such lower value products. We sell the wood chips produced at our mills to third parties pursuant to existing fibre supply agreements. Upon completion of the Power Generation Project, we expect that it will utilize a portion of the residuals from our mills.

Marketing, Sales and Distribution

Currently, the main markets for our lumber products are the United States, China, Japan and Canada. The following table shows the percentage of net lumber revenue earned from and volume shipped to each geographic market:

Lumber Sales by Geographic Market	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**
	(%)	**(%)**
By Revenue (net of freight)		
United States	40	38
China and other	36	37
Japan	14	5
Canada	10	20
	100	**100**
By Shipment Volume		
United States	37	36
China and other	43	41
Japan	10	4
Canada	10	19
	100	**100**

No single customer accounted for 10% or more of our sales in 2013.

The Government of Canada levies an export tax on shipments of softwood lumber to the United States in accordance with the SLA. The export tax rate ranges from 0% to 15% based upon the published Random Lengths Framing Lumber Composite Price. The tax penalizes Canadian exports to the United States at lower composite price levels, but the export tax rate decreases as the composite price level increases to specified levels and sustains the increase for a specified period. The export tax rate averaged 2% during 2013 and 11% during 2012.

Our customers include national and regional distributors, large construction firms, secondary manufacturers, retail yards and home centres. Sales are typically made in truck, rail or container load quantities. Our customers generally base purchasing decisions on price, quality and service.

The residential construction, repair and remodeling industry consumes the majority of softwood lumber. China's demand for softwood lumber includes a significant market for use in industrial applications, such as concrete forming and packaging, as well as a considerable potential to consume higher-grade lumber in wood-frame construction. Demand for softwood lumber is cyclical and influenced by transportation costs, exchange rates, government tariffs and competitiveness of substitute products, as well as by factors that affect consumer confidence and drive demand for residential construction such as the level of interest rates, disposable income, unemployment rates, perceived job security, and other indicators of general economic conditions. Demand can vary from region to region within a country, and seasonal factors that determine optimal building conditions can also affect demand. Similar to other commodities, supply and demand largely determine lumber prices.

The following table sets forth the sales revenue by product at our mills for the year ended December 31, 2013 and the year ended December 31, 2012:

Sales by Product	Year Ended December 31, 2013	Year Ended December 31, 2012
	(in millions)	
Lumber	$224.8	$184.4
By-Product	20.3	19.6
Logistics Services	14.5	13.6
	$259.6	**$217.6**

The majority of lumber from our mills destined for the United States and Canada ships by rail with the balance shipped by truck. Lumber is delivered to customers in China and Japan in containers aboard ocean-going vessels.

On December 31, 2011, we internalized our previously outsourced marketing and logistics functions by completing the acquisition of Welco and Navcor. We operate our lumber distribution business through our wholly-owned subsidiary Conifex Fibre Marketing Inc. and our transportation and logistics business through Navcor. In February 2014, we further expanded our market coverage and penetration with the acquisition of Lignum. For additional information, see the section of this Annual Information Form titled *"Description of Our Business – Recent Developments"*. Lignum serves customers and distributes products complementary to ours through a network of established inventory locations in North America. In addition to arranging for the distribution of our manufactured products and the wholesale lumber business undertaken by Conifex Fibre Marketing Inc. and Lignum, Navcor continues to provide logistics and consulting services to third parties. Each of these companies operates as an independent profit centre.

We believe our internal marketing and logistics capabilities provide enhanced opportunities to quickly shift products between our key markets, earn incremental revenue from wholesale lumber transactions and provision of third party logistics services, and reduce overall marketing and distribution costs while retaining an extensive professional team with considerable market access and expertise.

Our customers generally make purchasing decisions based on price, quality and service. Through our focus on product consistency, market knowledge, customer service, and superior logistical capabilities, we believe that we have established a loyal customer base since commencing operations.

Human Resources

As at December 31, 2013, we had 565 employees, including 441 unionized employees represented by the USW.

Both the Fort St. James and Mackenzie operations ratified a collective agreement in September 2010 that expired on June 30, 2013. The 2010 Collective Agreement provided for a wage deferral program whereby we could defer a portion of the hourly wages payable to our employees when we are paying the maximum 15% export tax under the SLA. The deferrals are required to be repaid by us when we are not paying any export tax on United States lumber shipments. We voluntarily ceased wage deferrals in mid-2011, and, in December 2012, we commenced repayment of the previously deferred amounts, which we expect to complete in 2014. In March 2014, we settled a new five-year collective agreement with the USW at the Fort St. James Mill. The agreement has retroactive effect to July 1, 2013 and expires on July 1, 2018. We are currently in discussions with the USW at the Mackenzie Mills and expect to reach a five-year agreement similar to that ratified at the Fort St. James Mill.

We are a member of the Council of Northern Interior Forest Employment Relations ("**Conifer**"). Conifer represents forest products companies in the interior region of British Columbia and certain other areas in their negotiations with the USW. Since our business strategies and philosophies may diverge from those common to other Conifer members, labour negotiations by this association may not always best meet our needs. We have the flexibility to continue to work with Conifer or to work independently of the association with respect to human resources matters.

The Company further strengthened its leadership team with the appointments of Hans Thur as our Senior Vice President and as President of Conifex Fibre Marketing Inc. and Patrick Bell as a director of our Company in August 2013. We also appointed Mr. Bell to the newly created role of Executive Vice President in January 2014.

Environmental

The operations at each of our mills are regulated by a wide array of federal, provincial, municipal and local environmental legislation and the respective regulations thereunder. Our operations require permits, including an air permit, a sanitary effluent permit and a refuse permit. Each of our mills has established an environmental management and reporting system designed to monitor environmental compliance with regulatory requirements, identify possible environmental issues and communicate them to all levels of management.

To our knowledge, the operations of each of our mills materially comply with all applicable environmental requirements. We believe that our mills manufacture each of their products in accordance with regulations governing air emissions and landfill discharges and within an overall context of maximizing the efficient use of resources and reducing the flow of all forms of waste materials.

Environmental laws and requirements have become increasingly stringent over time. Federal, provincial, municipal and local governments have become increasingly active in the area of environmental regulation. The enforcement of environmental laws changes from time to time, and there can be no assurance that the current level of enforcement of environmental laws will not change in the future. Regulation and enforcement by the various levels of government with respect to past, current and future operations and activities can reasonably be expected to continue to affect our mills.

Health and Safety

Providing a safe work environment for our employees has always been a top priority for our Board and management team. We further heightened our focus on safety in 2012 in the wake of certain explosions and resulting fires that destroyed two sawmills in the northern interior of British Columbia in separate incidents in January and April 2012. Partly in response to province-wide sawmill safety reviews ordered by WorkSafeBC, we undertook additional initiatives to mitigate workplace hazards. In addition to regular clean-up and risk mitigation activities at our mills, we took planned maintenance downtime in April 2012 at Fort St. James, and, in July 2012, we took additional maintenance downtime to make capital improvements designed to provide a safer work environment. These production curtailments allowed us to undertake comprehensive clean-up measures and safety inspections, to revisit our risk and hazard assessments and to increase our safety and risk awareness measures with our employees, including the development of a comprehensive loss prevention manual designed to help our staff recognize and mitigate workplace risks.

Our focus on safety and workplace hazard mitigation is ongoing and includes continual reinforcement of work place safety with all of our employees, participation in an industry task force committed to improving dust safety in the workplace, commitment of increased resources to enhance safety leadership, clean-up and maintenance, and further investments in capital improvements. In addition, to augment our continual safety improvement efforts, we retain the services of independent consultants from time to time to undertake quarterly inspections at the Fort St. James Mill and the Site II Mackenzie Mill and provide recommendations as warranted.

Bioenergy Segment

We intend to develop complementary new revenue streams around our core lumber business to further our objective to responsibly maximize the value of our fibre resources. Our initiatives in the bioenergy segment are anchored by our belief that, over time, low-value wood fibre as feedstock may be profitably used for higher-value bioenergy and bio-products production. The development of the Power Generation Project, which is designed to create power generation capacity at our Mackenzie facility to generate renewable energy for commercial sale, is an integral component of our longer-term strategy to develop other opportunities in bioenergy and bio-products to complement our harvesting and manufacturing operations. We believe that our access to conventional softwood fibre and to forest biomass, coupled with developing skills in enhanced harvesting capabilities, provides a strong foundation for our bioenergy segment to pursue such opportunities.

Background to Power Generation Project

In March 2011, we initiated the Power Generation Project at our Mackenzie sawmill site. The Power Generation Project consists of constructing a 36 megawatt biomass power plant in Mackenzie, British Columbia adjacent to our currently idled Site I sawmill complex and within an existing building with supporting infrastructure that formerly housed a newsprint production facility. The existing power generation assets and related infrastructure should allow us to develop the Power Generation Project at a lower capital cost than a comparable greenfield project.

We expect to source the feedstock for the planned biomass power plant from a portion of the residuals and former waste products produced at our lumber manufacturing and log harvesting operations. We expect that the Power Generation Project, once completed, will provide a stable and diversified source of revenue in the bioenergy segment, as well as an assured market for a portion of the sawmill residuals produced in the manufacture of lumber.

The Power Generation Project is designed to utilize proven technology and to produce approximately 230 gigawatt hours ("**GWh**") of net energy per year. In June 2011, we completed the EPA and the related LDA with 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 Mills over the 20-year term of the LDA paralleling that of the EPA. In exchange for our agreement to supply such energy for our Mackenzie Mills, BC Hydro has agreed to provide incentive funding towards the completion of the Power Generation Project.

Significant developments

Management has finalized its capital expenditure budget for the Power Generation Project at approximately $100 million including a $6 million general contingency. We resumed construction activities on the project in September 2013, upon the commitment of the Project Financing for an aggregate of up to $102.7 million. CP Partnership completed the Project Financing in November 2013. For further details on the Project Financing, see the section of this Annual Information Form titled *"Description of Our Business – General Development – Financings – $102.7 million Power Generation Project financing*".

The Power Generation Project is currently on budget and proceeding as scheduled, with an expected commercial operation date in the third quarter of 2014. Critical path procurement, engineering and construction activities are generally progressing as expected despite winter weather conditions, and major equipment has been delivered to the project site.

We expect the successful completion of the Power Generation Project will contribute to cash flow by providing a consistent source of revenue from the fixed price EPA and will enhance the long-term competitiveness of the Mackenzie Mills.

Management has focused on mitigating the execution risks inherent in a project of this magnitude through various strategies, including the use of proven technology and equipment, 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 long-term interest rate swaps to fix interest rates for the Project Financing. 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.

Environmental

Because the site of the Power Generation Project formerly housed a newsprint production facility and a thermomechanical pulp plant, the environmental permits required to repurpose the infrastructure and operate the biomass power generation facility were already in place, subject only to certain required amendments. The key permits for the Power Generation Project include air, wastewater effluent and refuse. All of the permit amendments required to develop and operate the Power Generation Project were completed in 2012.

The air permit covered all emission sources from the pulp and paper mill, including emissions from the existing bubbling bed boiler. In designing the Power Generation Project, we have taken into consideration the recommendations provided by various technical reports to improve the performance of the boiler as well as control the efficiency of particulate emissions. As a result of the amendment to the air permit, the overall emissions of total particulate matter should be reduced.

The legacy effluent permit related to the discharge of treated pulp and paper mill effluent to Williston Lake. We requested changes to the permit conditions to reflect the change in purpose from the operation of a paper mill to a biomass power generation facility. The amended permit resets discharge effluent limits and addresses monitoring requirements, sampling methodology, quality analysis and reporting requirements.

The refuse permit authorizes four landfill areas for different types of refuse generated by site activities. The amended refuse permit provides for the change of site descriptions, the closure of one landfill and maintenance of active status on three landfills with previously permitted rates of discharge. The amended refuse permit also includes conditions related to maintenance of the landfills, reporting and annual testing requirements.

We expect that the Power Generation Project will operate within permitted levels and in material compliance with all permits and other environmental regulations. The requisite tracking and reporting systems are scheduled to be implemented within the power facility prior to any commercial operation date.

RISK FACTORS

A prospective investor should carefully consider the risks summarized below and all other information contained in this Annual Information Form before making any investment decision relating to our securities. Some statements in this Annual Information Form (including some of the following risk factors) are forward-looking statements. Please refer to the discussion of forward-looking statements in the introduction to this Annual Information Form. Any one or more of these risks could have a material adverse effect on the value of any investment in our Company and on our business, financial position or operating results and should be taken into account in assessing our activities. The risks noted below do not necessarily comprise all of the risks that we face.

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 which makes future rates difficult to predict.

Availability of Fibre and Changes in Stumpage Fees

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

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 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.

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 and 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 and have significantly greater financial resources.

Operational Curtailments

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

Power Generation Project

We commissioned an independent engineer's report, a third party fuel study report, and conducted other due diligence prior to committing to the Power Generation Project at our Mackenzie sawmill site. Our due diligence activities included an 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, experienced engineers and other professionals familiar with the project site and legacy equipment, and fixed price construction contracts. 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 capital expenditure estimates. There is no assurance that the Power Generation Project 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 our business, financial condition and operating results.

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 extensive 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 our Board. We assign experienced project managers to each project, employ proven 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 expected benefits. The realization of any of these risks could have a material adverse effect on our business, financial condition and operating results.

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 railroad, trucks and ships. If any of our third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, we may be unable to sell those products at full value, or at all, or 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 were to cease operations, suffer labour-related or other disruptions, or cease 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.

Employee Retention

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.

Labour Relations

We employ a unionized work force in our sawmilling operations. In March 2014, we completed a five-year collective labour agreement with the USW at our Fort St. James Mill. The agreement has retroactive effect to July 1, 2013 and expires on July 1, 2018. We are currently in discussions with the USW for a new collective agreement at our Mackenzie Mills and currently expect to reach a five-year agreement similar to that ratified at our Fort St. James Mill. Although we have not experienced any work stoppages in the past, there can be no assurance that we will be able to negotiate an acceptable collective agreement or other satisfactory arrangements with our employees at the Mackenzie Mills, which negotiations are ongoing following the expiration of the 2010 Collective Agreement on June 30, 2013. This could result in a strike or work stoppage by the affected employees that could result in lost productions 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 on-going labour costs, which could have a material adverse effect on our business, financial condition, results of operation 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.

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 policy, 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.

Combustible Dust

In two separate incidents in January and April 2012, certain 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 have 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 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.

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 in the future, we may need to explore other strategic alternatives.

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 help 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 this 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

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, and increased production costs. The containment or further spread of the MPB infestation will depend on a number of factors including 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, 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 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 access other sources of capital to fund unforeseen environmental liabilities or expenditures.

Softwood Lumber Agreement

We 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 SLA had an original term of seven years. In January 2012, representatives of the Canadian and U.S. governments jointly announced a two-year extension of the SLA, which is now due to expire in October 2015. We cannot predict if the SLA will be terminated before the expiration of its term or what actions the United States or Canada might take following such expiration or termination.

The emergence of significant demand from China and other export markets in recent years has reduced our 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

Canadian court decisions have recognized the existence of Aboriginal title and rights, which may include title or rights of use to lands used or occupied by First Nations. First Nations groups have claimed Aboriginal rights over a significant portion of British Columbia, and few treaties are in place between the Crown and First Nations groups in British Columbia. While certain First Nations groups 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 First Nations 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 First Nations groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights. We cannot assure that First Nations claims will not in the future have a material adverse effect on our timber harvesting rights or our ability to exercise or renew them or secure other timber harvesting rights.

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.

DIVIDENDS

We have not declared or paid any dividends on any of our common shares since incorporation and do not foresee the declaration or payment of any dividends on our shares in the near future. Our Board will make any decision to pay dividends on our common shares on the basis of our earnings, financial requirements and other conditions existing at such future time and which our Board considers appropriate in the circumstances.

DESCRIPTION OF CAPITAL STRUCTURE

We are authorized to issue an unlimited number of common shares without par value and an unlimited number of Class B preferred shares (the "**Preferred Shares**"), of which 20,870,721 common shares and no Preferred Shares are issued and outstanding as of the date of this Annual Information Form.

Common Shares

The common shares entitle their holders to: (a) receive notice of and attend any meetings of our shareholders and are entitled to one vote for each common share held, except at meetings at which only holders of a specified class are entitled to vote; (b) the right to receive, subject to the prior rights and privileges attaching to any other class of our shares, including without limitation the rights of the holders of Preferred Shares, any dividend declared by us; and (c) the right to receive, subject to the prior rights and privileges attaching to any other class of our shares, including without limitation the holders of Preferred Shares, our remaining property and assets upon dissolution. Subject to the provisions of the CBCA, we may by special resolution fix, from time to time before the issue thereof, the designation, rights, privileges, restrictions, and conditions attaching to each series of our common shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions. No special right or restriction attached to any issued shares shall be prejudiced or interfered with unless all shareholders holding shares of each class whose special right or restriction is so prejudiced or interfered with consent thereto in writing, or unless a resolution consenting thereto is passed at a separate class meeting of the holders of the shares of each such class by the majority required to pass a special resolution, or such greater majority as may be specified by the special rights attached to the class of shares of the issued shares of such class.

On May 14, 2013, we announced that our Board adopted a shareholder rights plan (the "**Rights Plan**"). The TSX-V has approved the Rights Plan, and our shareholders ratified the Rights Plan for an initial term of three years at our 2013 annual general meeting. Pursuant to the Rights Plan, one right attached to each of our outstanding common shares and one right will attach to any of our common shares issued during the term of the Rights Plan. Subject to the terms of the Rights Plan and to certain exceptions provided therein, the rights will become exercisable in the event that any person, together with any joint actors, acquires or announces its intention to acquire 20% or more of our outstanding shares without complying with the "Permitted Bid" provisions of the Rights Plan or where the application of the Rights Plan is waived in accordance with its terms. The "Permitted Bid" provisions prevent the dilutive effects of the Rights Plan from operating if a take-over bid is made to all holders of our common (other than the bidder) by way of a take-over bid circular that remains open for acceptance for a minimum of 60 days and that satisfies certain other conditions. If a take-over bid does not comply with the requirements of the Rights Plan or where the application of the Rights Plan is not waived in accordance with its terms, the rights holders (other than the acquiring person and its joint actors) will be entitled to purchase our additional common shares at a significant discount to the market price.

Preferred Shares

The Preferred Shares may, at any time and from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution of our Board. Holders of Preferred Shares shall not be entitled to receive notice of and attend any meetings of our shareholders or to vote at any such meetings, except meetings at which only holders of Preferred Shares are entitled to vote. Holders of Preferred Shares are entitled to: (a) the right to receive, subject to the prior rights and privileges attaching to any other class of our shares, any dividend declared by us; and (b) the right to receive, subject to the prior rights and privileges attaching to any other class of our shares, our remaining property and assets upon dissolution. Subject to the provisions of the CBCA, we may by special resolution fix, from time to time before the issue thereof, the designation, rights, privileges, restrictions and conditions attaching to each series of the Preferred Shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions. No special right or restriction attached to any issued shares shall be prejudiced or interfered with unless all shareholders holding shares of each class whose special right or restriction is so prejudiced or interfered with consent thereto in writing, or unless a resolution consenting thereto is passed at a separate class meeting of the holders of the shares of each such class by the majority required to pass a special resolution, or such greater majority as may be specified by the special rights attached to the class of shares of the issued shares of such class.

There are currently no Preferred Shares issued and outstanding. We currently have no intention to issue any Preferred Shares.

MARKET FOR SECURITIES

Trading Price and Volume

Our common shares began trading on the TSX-V under the symbol "CFF" on June 8, 2010. The following table provides the monthly high and low sales price and trading volume of our common shares for our fiscal year ended December 31, 2013:

Trading Summary for CFF

	High ($)	Low ($)	Volume Traded (# of Shares)
2013			
January	8.80	6.70	1,405,309
February	8.19	7.55	301,156
March	8.65	7.80	724,208
April	9.95	8.55	717.675
May	9.55	7.50	436,683
June	8.00	7.19	357,166
July	7.65	6.40	911,986
August	7.49	6.50	321,301
September	8.33	6.85	481,215
October	8.17	7.70	1,156,822
November	8.24	7.40	642,177
December	8.90	7.41	655,505

Prior Sales

The following table summarizes the issuances of our securities, other than our common shares, that we issued within the 2013 fiscal year:

Date	Price per Security	Number of Securities	Type of Security
January 14, 2013	$8.25(1)	776	PSUs(2)
February 1, 2013	$8.25(1)	2,970	PSUs(2)
February 4, 2013	$8.25(1)	15,758	PSUs(2)
February 18, 2013	$8.25(1)	21,514	PSUs(2)
February 21, 2013	N/A	160,417	Warrants
April 1, 2013	$8.65(1)	1,619	PSUs(2)
May 1, 2013	$9.33(1)	1,233	PSUs(2)
May 6, 2013	$9.10(1)	1,209	PSUs(2)
May 16, 2013	$8.87(1)	3,354	PSUs(2)
June 6, 2013	$8.25(1)	933	PSUs(2)
June 30, 2013	$8.25(1)	125,000	PSUs(2)

July 8, 2013	$8.25[1]	15,152	PSUs[2]
July 15, 2013	$8.25[1]	3,606	PSUs[2]
July 29, 2013	$8.25[1]	1,018	PSUs[2]
September 9, 2013	$7.16[1]	35,000	PSUs[2]
September 9, 2013	N/A	30,000	RSUs[3]
September 18, 2013	N/A	1,060,000	Warrants
October 16, 2013	N/A	5,000	RSUs[3]
November 12, 2013	N/A	5,000	RSUs[3]

Notes:
(1) Represents the deemed price at which the securities were issued.
(2) "PSUs" means the performance share unit awards issued under our long-term incentive plan dated June 3, 2010, as amended.
(3) "RSUs" means the restricted share unit awards issued under our long-term incentive plan dated June 3, 2010, as amended.

DIRECTORS AND EXECUTIVE OFFICERS

Our Board consists of eight directors. The term of office for each of our directors will expire at the time of our next annual general meeting of shareholders to be held in 2014. The following table sets forth the name, province or state and country of residence and position(s) held for each of our directors and executive officers as at the date hereof, as well as the date of election or appointment, as the case may be, of each of our directors:

Name and Province and Country of Residence	Current Position	Director Since
Kenneth A. Shields[1] British Columbia, Canada	Chairman, Chief Executive Officer, President and Director	June 3, 2010
David E. Roberts[2][3] Ontario, Canada	Director	May 27, 2010
George Malpass British Columbia, Canada	Director	May 27, 2010
James Shepherd[1][2][3] British Columbia, Canada	Director	June 3, 2010
Jim Jia British Columbia, Canada	Director	June 3, 2010
John Bae[1] British Columbia, Canada	Director	June 21, 2010
Michael Costello[2][3] British Columbia, Canada	Director	April 18, 2012
Pat Bell[1] British Columbia, Canada	Director and Executive Vice President	August 12, 2013
Yuri Lewis British Columbia, Canada	Chief Financial Officer and Corporate Secretary	N/A
Hans Thur British Columbia, Canada	Senior Vice President, Marketing	N/A
Antonio Madia British Columbia, Canada	Vice President, Corporate Development	N/A

Notes:
(1) A member of the Environmental, Health and Safety Committee, which is comprised of Messrs. Shepherd (Chair), Shields, Bae and Bell.
(2) A member of the Audit Committee, which is comprised of Messrs. Costello (Chair), Roberts, and Shepherd.
(3) A member of the Corporate Governance and Human Resources Committee, which is comprised of Messrs. Roberts (Chair), Costello and Shepherd.

As at the date hereof, our directors and executive officers as a group, beneficially own, directly or indirectly, or exercise control or direction over, 1,872,953 (approximately 9%) of our issued and outstanding common shares.

Set out below are profiles of our directors and executive officers, including particulars of their principal occupations for the past five years:

Kenneth A. Shields, age 65, Chairman, Chief Executive Officer, President and Director. Mr. Shields currently serves as the Chairman of the Canadian BioEnergy Association and a director of the Forest Products Association of Canada and the British Columbia Lumber Trade Council. Mr. Shields is a former director of the Investment Dealers' Association of Canada, Raymond James Financial Inc., Mercer International Inc., TimberWest Forest Corp. and Slocan Forest Products Ltd. Mr. Shields resigned as Chief Executive Officer of Raymond James Ltd. in 2006 to devote his efforts to launch Conifex Timber Inc.

David Roberts, age 72, Director. Mr. Roberts retired in 2004 from Raymond James Ltd. where he headed its institutional equity business based in Toronto, Ontario. Mr. Roberts has been instrumental in raising financing for our Company to date.

George Malpass, age 74, Director. Mr. Malpass is a former President, Chief Executive Officer and the founder of Primex Forest Products Ltd. ("**Primex**"), a coastal British Columbia lumber company. Primex maintained consistent profitability over 17 consecutive years. Mr. Malpass has served as a director of Mercer International Inc., International Forest Products Ltd. and Riverside Forest Products Ltd. and is a former chairman of the Council of Forest Industries of British Columbia.

James Shepherd, age 61, Director. Mr. Shepherd has over 25 years of experience in the forest product sector and presently serves on the board of directors of Mercer International Inc. From 2004 to 2006, Mr. Shepherd was a former President and Chief Executive Officer of Canfor Corporation, which is listed on the Toronto Stock Exchange and Slocan Forest Products Ltd. from 1999 to 2004. Mr. Shepherd was a former President of Crestbrook Forest Industries Ltd. and Finlay Forest Industries Limited and is a former Chairman of the Forest Products Association of Canada. Mr. Shepherd was a director of Canfor Corporation from 2004 to 2007 and was a director of Canfor Pulp Income Fund from 2006 to 2007.

Jim Jia, age 46, Director. Mr. Jia is the President of LJ Resources Co. Ltd., a company which is associated with Hebei Wenfeng Industry Group. Mr. Jia has over 20 years of forest industry experience and was a senior account executive at Canfor Corporation where he pioneered the SPF market in China.

John Bae, age 43, Director. Mr. Bae is the corporate development manager of LJ Resources Co. Ltd. Mr. Bae has over 18 years of global softwood lumber marketing experience.

Michael Costello, age 63, Director. Mr. Costello has held a number of executive and board positions during his career and currently serves as a director of the Ontario Power Authority, BC Health Benefit Trust and InTransit BC (Canada Line). Mr. Costello has also served as President and Chief Executive Officer of BC Transmission Corporation, President and Chief Executive Officer of BC Hydro and Deputy Minister of Finance and Secretary to the Treasury Board for the Government of British Columbia and the Government of Saskatchewan. Mr. Costello previously served as Chair of the Canadian Electricity Association, Chair of the Energy Council of Canada and director of the Vancouver Island Health Authority.

Pat Bell, age 57, Director and Executive Vice President. During his political career, Mr. Bell served three terms in the BC Legislature and held a number of high profile positions with the Provincial Government, including Minister of Jobs, Tourism and Skills Training, Minister of Forests and Range, and Minister of Agriculture. Mr. Bell's entrepreneurial career involved interests in a variety of businesses, including a logging company and a trucking company. Earlier in his career, Mr. Bell worked in the hospitality industry at a corporate level and remains involved with the organization as a franchisee.

Yuri Lewis, age 54, Chief Financial Officer and Corporate Secretary. Mrs. Lewis has over 30 years of experience in the forest products sector, primarily with wholesale and distribution companies and most recently with Welco. Mrs. Lewis has been a member of the Certified General Accountants (CGA) Association of British Columbia since 1987 and completed her MBA in 2002.

Hans Thur, age 57, Senior Vice President Marketing. Mr. Thur has extensive marketing, sales and global supply chain management experience with a leading North American lumber manufacturer. In his previous role, Mr. Thur was also responsible for the integration of several newly acquired business units. Mr. Thur is familiar with the softwood lumber wholesale and distribution business through direct experience gained earlier in his career.

Antonio Madia, age 39, Vice President Corporate Development. Mr. Madia has over 20 years of experience in the forest products sector in a variety of roles including forestry, maintenance planning, accounting and finance and operations management. Mr. Madia earned his forestry degree in 1999 and his Certified General Accountants (CGA) designation in 2006.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the best of our knowledge, no director or executive officer is, as at the date of this Annual Information Form, or has been, within 10 years before the date of this Annual Information Form, a director, Chief Executive Officer ("**CEO**") or Chief Financial Officer ("**CFO**") of any company (including our Company) that:

- was the subject, while the director or executive officer was acting in the capacity as director, CEO or CFO of such company, of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days; or

- was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO of such company.

To the best of our knowledge, no director, executive officer or a shareholder holding a sufficient number of our securities to affect materially the control of our Company:

- is, as at the date of this Annual Information Form, or has been within 10 years before the date of this Annual Information Form, a director or executive officer of any company (including our Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

- has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;

- has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

- has been subject to any penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Our directors and officers will be subject to potential conflicts of interest in connection with our operations. In particular, certain of our directors and officers are involved in managerial or director positions with other companies whose operations may, from time to time, be in direct competition with our operations or with entities which may, from time to time, provide financing to, or make equity investments in, our competitors. See the section of this

Annual Information Form titled "*Directors and Executive Officers*". In accordance with the CBCA, any director who has a material interest or any person who is a party to a material contract or a proposed material contract with us is required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, our directors are required to act honestly and in good faith with a view to the best interests of our Company. Certain of our directors and officers have either other employment or other business or time restrictions placed on them and accordingly these directors and officers will only be able to devote part of their time to our affairs.

AUDIT COMMITTEE DISCLOSURE

Our Board appoints the Audit Committee to assist in monitoring: (i) the integrity of our financial statements; (ii) our compliance with legal and regulatory requirements; and (iii) the qualifications, appointment, independence and performance of our external auditors and senior financial executives. The Audit Committee's authority and responsibilities include meeting with our auditor and reviewing our annual financial statements and making recommendations for the approval of such financial statements to the Board. Material issues related to the audit of our internal accounting controls and information systems are discussed with the Audit Committee as such issues arise. The Audit Committee has direct access to our auditors.

Audit Committee Charter

The Terms of Reference for the Audit Committee contained in our Corporate Governance Guidelines set out the responsibilities and duties, qualifications for membership, procedures for committee member appointment and reporting to the Board. A copy of the Terms of Reference for the Audit Committee is attached hereto as Schedule "A".

Composition of the Audit Committee

Michael Costello chairs the Audit Committee. The other members of the Audit Committee are David E. Roberts and James Shepherd. Each member of the Audit Committee is "financially literate" within the meaning of National Instrument 52-110 **—** *Audit Committees* ("**NI 52-110**"). All members of the Audit Committee are "independent" members of the audit committee as that term is used in NI 52-110.

Relevant Experience

Set out below is a description of the education and experience of each member of the Audit Committee relevant to the performance of his responsibilities as a member of the Audit Committee:

Michael Costello. Mr. Costello has held a number of executive and board positions during his career and currently serves as a director of the Ontario Power Authority, BC Health Benefit Trust and InTransit BC (Canada Line). Mr. Costello has also served as President and Chief Executive Officer of BC Transmission Corporation, President and Chief Executive Officer of BC Hydro and Deputy Minister of Finance and Secretary to the Treasury Board for the Government of British Columbia and the Government of Saskatchewan. Mr. Costello previously served as Chair of the Canadian Electricity Association and Chair of the Energy Council of Canada and as director of the Vancouver Island Health Authority.

David E. Roberts. Mr. Roberts recently retired from Raymond James Ltd. where he headed its institutional equity business based in Toronto, Ontario. Mr. Roberts has also participated in a number of courses related to risk management and governance topics with particular emphasis on audit committees.

James Shepherd. Mr. Shepherd has over 25 years of experience in the forest product sector and presently serves on the board of directors of Mercer International Inc. Mr. Shepherd is a former President and Chief Executive Officer of Canfor Corporation (2004-2006) and Slocan Forest Products Ltd. (1999-2004). Mr. Shepherd is the former President of Crestbrook Forest Industries Ltd. and Finlay Forest Industries Limited and is a former chairman of the Forest Products Association of Canada.

Pre-Approval Policies and Procedures

The Terms of Reference for the Audit Committee includes responsibilities regarding the provision of non-audit services by our external auditors. The Terms of Reference for the Audit Committee states that the Audit Committee shall: (i) pre-approve the retention of the independent auditor for all audit and non-audit services, including tax services, and the fees for such non-audit services which are provided to us and our subsidiaries; (ii) consider whether the provision of non-audit services is compatible with maintaining the auditor's independence; and (iii) if so determined by the Audit Committee, recommend that our Board take appropriate action to satisfy itself of the independence of the auditor.

Audit Committee Oversight

At no time since the commencement of our most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Audit, Tax and Other Fees

Fees paid or accrued to our external auditor for audit and other services for the years ended December 31, 2013 and December 31, 2012, were as follows:

	2013	2012
Audit fees[(1)]	$135,193	$134,793
Audit-related fees[(2)]	47,250	43,441
Tax fees [(3)]	135,208	111,161
Other fees[(4)]	9,660	3,575
	$327,311	**$292,970**

Notes:

(1) Audit fees include the annual financial statement audit of our Company and its subsidiaries.

(2) Audit-related services include assurance and related services reasonably related to the performance of the audit or review of our financial statements.

(3) Tax services include tax advisory and compliance services and tax credit contingency fees which are based on a percentage of recoveries.

(4) Other fees include services provided related to an internal control documentation project during 2013 and in connection with our private placement financings completed during 2012.

PROMOTERS

Other than as may be otherwise disclosed herein, no person or company, within the two most recently completed financial years or during the current financial year, has been a promoter of our Company or of any subsidiary of our Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Except as disclosed below, we are not involved nor have been involved in any legal or regulatory proceedings (including any such proceedings which are pending or threatened of which we are aware) within the preceding financial year.

Given the nature of the business environment in which we operate and the relative strength of our financial position, third parties may threaten or commence legal or regulatory proceedings against us in the ordinary course of our business. An adverse determination in litigation or regulatory proceedings could subject us to significant liabilities to third parties. Although such disputes often settle before trial, the costs associated with such arrangements may be substantial. We closely monitor the progress of all threatened litigation and, where we consider it appropriate, make the appropriate provisions and reserves in our financial statements.

REGISTRAR AND TRANSFER AGENT

Our registrar and transfer agent is Computershare Investor Services Inc., 510 Burrard Street, 3rd Floor, Vancouver, British Columbia V6C 3B9.

INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of directors, executive officers, any shareholder who, to the best of our knowledge, beneficially owns, directly or indirectly, more than 10% of our outstanding common shares or any known associate or affiliate of any such persons, in any transaction since incorporation or in any proposed transaction which has materially affected or will materially affect our Company.

MATERIAL CONTRACTS

Except as otherwise described in this Annual Information Form, there are no contracts, other than contracts entered into in the ordinary course of business, that are material to our Company and that were entered into in the most recently completed financial year, or before the most recently completed financial year, but are still in effect and have not been previously filed.

The following material contracts were entered into by us during the most recently completed financial year or before the most recently completed financial year but are still in effect:

1. Trust Indenture dated June 3, 2010 between Valiant Trust Company and us. For additional information, see the section of this Annual Information Form titled "*Description of Our Business – General Development – Financings – $10 million convertible note financing*";

2. EPA dated June 10, 2011, as amended, between BC Hydro and us. For additional information, see the section of this Annual Information Form titled "*Description of Our Business – Bioenergy Segment*";

3. LDA dated June 10, 2011 between BC Hydro and us. For additional information, see the section of this Annual Information Form titled "*Description of Our Business – Bioenergy Segment*";

4. Warrant Indenture dated December 18, 2012 between Computershare Trust Company of Canada and us. For additional information, see the section of this Annual Information Form titled *"Description of Our Business - General Development – Financings - $9.3 million private placement financing*";

5. Loan Agreement dated April 2, 2013, as amended, between Royal Bank of Canada and us. For additional information, see the section of this Annual Information Form titled *"Description of Our Business - General Development – Financings - $25 million senior secured revolving asset backed credit facility*";

6. The Rights Plan dated May 14, 2013 between Computershare Investor Services Inc. and us. For additional information, see the section of this Annual Information Form titled *"Description of Capital Structure – Common Shares*";

7. The Note Purchase Agreement dated September 5, 2013 between Vertex One Asset Management Inc. and us. For additional information, see the section of this Annual Information Form titled *"Description of Our Business – General Development – Financings – $30 million senior secured financing"*; and

8. Credit Agreement dated November 27, 2013 between Canadian Imperial Bank of Commerce [et al] and us. For additional information, see the section of this Annual Information Form titled *"Description of Our Business – General Development – Financings – $102.7 million Power Generation Project financing"*.

INTERESTS OF EXPERTS

Our auditors are PricewaterhouseCoopers LLP, Chartered Accountants, and they have advised us that they are independent of our Company in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information regarding us, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our information circular dated May 10, 2013 in respect of our annual and special meeting of shareholders held on June 25, 2013, which is available on SEDAR at www.sedar.com. Additional financial information is provided in our consolidated financial statements and related management's discussion and analysis for the fiscal year ended December 31, 2013, which is available on SEDAR at www.sedar.com.

Additional information relating to our Company may be found on SEDAR at www.sedar.com.

SCHEDULE "A"

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

OF

CONIFEX TIMBER INC.

1. PURPOSE

The Audit Committee is appointed by the Board to assist the Board in monitoring: (1) the integrity of the financial statements of the Company; (2) the compliance by the Company with legal and regulatory requirements; and (3) the qualifications, appointment, independence and performance of the Company's external auditors and senior finance executives.

The Audit Committee shall consist of at least 3 directors as determined by the Board. The members of the Audit Committee shall meet the independence and experience requirements of any exchange or quotation system upon which the Company's securities are listed or quoted and in accordance with applicable securities laws. In particular, every member of the Audit Committee must be financially literate within the meaning of, and in accordance with, applicable securities laws. The members of the Audit Committee shall be appointed by the Board.

The Audit Committee may request any officer or employee of the Company and its subsidiaries or the Company's outside counsel or independent auditor to attend meetings of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

The Company shall provide funding to compensate: (i) any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; and (ii) any independent legal, accounting or other consultants employed by the Audit Committee. The Company shall also provide funding for the Audit Committee's ordinary administrative expenses that are necessary or appropriate in carrying out its duties.

The Audit Committee shall make regular reports to the Board.

The Audit Committee shall have the following authority and responsibilities:

Financial Disclosure, Risk Management and Internal Controls

1. To review, prior to public disclosure thereof, the annual audited financial statements and management's discussion and analysis with management and the Company's independent auditor, including: (i) matters required to be reviewed under applicable legal and regulatory requirements; (ii) major issues regarding accounting and auditing principles and practices; and (iii) the adequacy of internal controls that could significantly affect the Company's financial statements.

2. To review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal accounting or financial personnel or management.

3. To review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including an analysis of the effect of alternative GAAP methods on the Company's financial statements.

4. To review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures and variable interest entities on the Company's financial statements.

5. To review with the independent auditor any problems or difficulties the auditor may have encountered and any disagreements between the independent auditor and management of the Company and any management letter provided by the auditor and the Company's response to that letter. Such review should include:

   (a) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management;

   (b) the internal accounting and financial responsibilities; and

   (c) the investigation and implementation of the resolution of any disagreement between the independent auditor and the management of the Company.

   The Audit Committee shall be directly responsible for the resolution of disagreements between management and the external auditor regarding financial reports.

6. To review and discuss with management and the independent auditor, as appropriate, the Company's quarterly financial statements, including the results of the independent auditors' review of the quarterly financial statements and earnings press releases, and approve all quarterly financial statements, earnings press releases and financial information provided to rating agencies before public disclosure thereof.

7. To confirm that all annual and interim financial statement filings are certified by the chief executive officer and the chief financial officer if and as required by applicable law.

8. To review and approve the disclosures required by applicable securities laws to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees.

9. To meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

10. Ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements.

11. To review the significant reports to management prepared by the internal accounting and financial personnel and management's responses.

External Auditor

12. Recommend to the Board the nomination and appointment of the independent auditor for the purposes of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company. Each independent auditor or registered public accounting firm engaged for the Company or the Audit Committee shall report directly to the Audit Committee.

13. To review and discuss with the external auditors the scope of the annual audit and the results of the annual audit examination by the external auditors.

14. The sole authority to approve all audit engagement terms and fees to be paid to the independent auditor for audit services.

15. Overseeing the work of the external auditor engaged for the purposes of preparing or issuing an auditor's report or performing other audit, review or attest services.

16. To review the experience and qualifications of the senior members of the independent auditor team, the quality control procedures of the independent auditor and the rotation of the lead partner and reviewing partner of the independent auditor.

17. To evaluate the performance of the independent auditor and whether it is appropriate to adopt a policy of rotating independent auditors on a regular basis. If so determined by the Audit Committee, recommend that the Board replace the independent auditor.

18. To receive periodic reports from the independent auditor regarding the auditor's independence, discuss such reports with the auditor, consider whether the provision of non-audit services is compatible with maintaining the auditor's independence and, if so determined by the Audit Committee, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

19. To meet at least quarterly with the chief financial officer and the independent auditor in separate executive sessions.

Non-Audit Services

20. The authority to engage independent counsel and other advisors as it deems necessary to carry out the duties and responsibilities of the Audit Committee.

21. To pre-approve the retention of the independent auditor for all audit and non-audit services to be provided to the Company or its subsidiaries by any independent public accountants, including tax services, and the fees for such non-audit services.

Internal Control

22. To review with management and the independent auditor the adequacy and effectiveness of the Company's internal control over annual and interim financial reporting, including information technology security and control and controls related to the prevention and detection of fraud and improper or illegal transactions or payments, the status of the remediation of any identified control deficiencies, and elicit recommendations for improvements.

23. To understand the scope of the independent auditors' review of internal control over financial reporting, and obtain and review reports on significant findings and recommendations, including respecting the Company’s accounting principles or changes to such principles or their application and the treatment of financial information discussed with management, together with management's responses.

Compliance

24. To obtain reports/confirmation from management, the Company's senior accounting and financial personnel and the independent auditor that the Company's subsidiaries are in conformity with applicable legal requirements and the Company's Code of Conduct, including disclosures of insider and affiliated party transactions.

25. To review and consider compliance with statutes relating to areas for which the Audit Committee has responsibility.

26. To review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee or anonymous complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.

27. To advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Conduct.

General

28. To report regularly to the Board on Audit Committee activities, issues and related recommendations.

29. To review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

30. To establish procedures for: (i) the receipt, retention, processing, treatment and resolution of complaints regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by the Company's employees of concerns regarding auditing or accounting matters.

31. To review and investigate any matters pertaining to the integrity of management, including conflicts of interest or adherence to standards of business conduct as required in the policies of the Company.

32. To review and pre-approve the hiring policies of the Company regarding partners, employees and former partners and employees of the auditors and who were engaged on the Company's account.

33. To review the appointment and replacement of the senior accounting and financial executives.

34. To review with management material matters relating to tax and insurance.

35. To review and consider transactions with related parties and/or affiliated transactions.

36. To review and approve or ratify, on at least an annual basis, summary expense reports and reimbursements of the Chief Executive Officer and Chief Financial Officer.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor (other than as set out herein) or to assure compliance with laws and regulations and the Company's Code of Conduct.

2. ACCOUNTABILITY

The minutes of all meetings of the Committee will be made available for review by any member of the Board on request to the Audit Chair of the Audit Committee.

INDICATIVE SCHEDULE FOR AUDIT COMMITTEE MATTERS

Agenda Items	J	F	M	A	M	J	J	A	S	O	N	D
Financial Disclosure, Risk Management and Internal Controls												
(i) Review the annual audited financial statements and adequacy and effectiveness of the Company's internal controls with management and the auditor and related CEO and CFO certifications		•										
(ii) Review analysis prepared by		•			•			•			•	

Agenda Items	J	F	M	A	M	J	J	A	S	O	N	D
management and the auditor of significant financial reporting issues and judgments												
(iii) Review with management and the auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures and variable interest entities		•			•			•			•	
(iv) Review with the auditor any problems and difficulties the auditor may have encountered and any disagreements with management		•			•			•			•	
(v) Review with management and the auditor the Company's quarterly financials, the adequacy and effectiveness of the Company's internal controls and related CEO and CFO certifications		•			•			•			•	
(vi) Review the report required for the Company's Annual Information Form and management information circular or other document prescribed by applicable securities laws					•							
(vii) Meet with management and review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures		•						•				
(viii) Review the significant reports to management prepared by the internal accounting and financial personnel		•			•			•			•	
External Auditor (i) Review and discuss with the auditors the scope of the annual audit and results		•						•				
(ii) Review qualifications of the senior members of the auditor team, quality control procedures and the rotation of partners								•				
(iii) Pre-approve the retention of the auditor for all audit and permitted non-audit services								•				
Compliance (i) Obtain confirmation from management and the auditor re: compliance with legal requirements and the Code of Conduct		•			•			•			•	
(ii) Review and consider compliance with statutes relating to areas for which the Audit Committee has responsibility		•			•			•			•	
(iii) Review with management and the auditor any correspondence with		•			•			•			•	

Agenda Items	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**
regulators or governmental agencies and any employee or anonymous complaints which raise material issues regarding the Company's financials and accounting policies												
General Duties (i) Review and reassess the adequacy of the Audit Committee Charter		•				•						
(ii) Review Whistleblower Policy and all reports thereon as scheduled and otherwise as required		•										
(iii) Review and investigate any matters pertaining to the integrity of management (as needed)		•			•			•			•	
(iv) Review and pre-approve any hiring by the Company of employees of the auditor (as needed)		•			•			•			•	
(v) Review the appointment and replacement of the senior accounting and financial executives (as needed)											•	
(vi) Review with management material matters relating to tax and insurance		•			•			•			•	
(vii) Review and consider transactions with related parties as scheduled and otherwise as required		•										
(viii) Review and approve summary expense reports and reimbursement of the Chair, Chief Executive Officer and Chief Financial Officer		•										