CONIFEX TIMBER INC.
THIRD QUARTER 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of October 31, 2014

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc. (the "Company") for the quarter ended September 30, 2014 relative to the quarters ended June 30, 2014 and September 30, 2013, the Company's financial condition and future prospects. This interim MD&A should be read in conjunction with Conifex's unaudited condensed consolidated interim financial statements and accompanying notes for the quarters ended September 30, 2014 and 2013, as well as the 2013 annual MD&A and the December 31, 2013 audited consolidated financial statements and notes thereon which are filed on SEDAR at www.sedar.com. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards.*

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 27, 2014 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities law.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

Selected Financial Information

(millions of dollars, except share and per share amounts, unaudited	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	90.9	99.6	257.6	65.2	195.9
Operating Income by Segment					
Lumber	2.9	5.4	12.7	1.8	14.9
Bioenergy	-	-	-	(0.1)	(0.4)
Corporate and other	(1.4)	(1.0)	(4.0)	(1.0)	(3.9)
	1.5	4.4	8.7	0.7	10.6
EBITDA by Segment					
Lumber	5.8	8.0	20.8	4.0	21.5
Bioenergy	-	-	-	(0.1)	(0.4)
Corporate and other	(0.8)	(2.1)	(4.4)	(1.4)	(4.8)
	5.0	5.9	16.4	2.5	16.3
Net income	1.1	2.0	4.7	(0.1)	8.5
Net income per share - basic and diluted (1)	0.05	0.10	0.22	(0.01)	0.41
Shares outstanding - weighted average (millions)	20.9	20.9	20.9	20.8	20.8
Average exchange rate - US$/Cdn$ (2)	0.918	0.917	0.914	0.963	0.977
Reconciliation of EBITDA to Net Income					
Net income	1.1	2.0	4.7	(0.1)	8.5
Add: Interest expense	1.1	1.2	3.6	0.3	1.4
Amortization	2.8	2.7	8.1	2.3	6.4
EBITDA (3)	5.0	5.9	16.4	2.5	16.3

(1) If the conversion of convertible notes and/or the inclusion of outstanding warrants and options is anti-dilutive, it is excluded from the calculation of diluted net income per share.
(2) Source: Bank of Canada website www.bankofcanada.ca
(3) The above EBITDA calculation represents earnings before interest, taxes, depreciation and amortization, and has been reported without reference to deductions for non-cash charges related to employee compensation and changes in the balance sheet carrying value of convertible debentures as presented in previous quarters. EBITDA for all quarters presented has also been restated to exclude such items.

For the quarter ended September 30, 2014, the Company recorded net income of $1.1 million or $0.05 per diluted share on sales of $90.9 million compared to net income of $2.0 million or $0.10 per diluted share on sales of $99.6 million during the second quarter of 2014, and net loss of $0.1 million or $0.01 per share on sales of $65.2 million during the third quarter of 2013. Net income for the first nine months of 2014 was $4.7 million or $0.22 per diluted share compared to net income of $8.5 million or $0.41 per diluted share over the same period last year.

The Company recorded operating income of $1.5 million for the third quarter of 2014 compared to $4.4 million in the previous quarter, and $0.7 million in the third quarter of 2013. The decrease in lumber segment operating income of $2.5 million over the previous quarter was primarily attributable to a modest increase in unit mill net realizations that was more than offset by a 11% reduction in shipments of Conifex produced lumber, 15% lower revenue from residuals, and a 12% increase in unit log and cash conversion costs. The improvement in lumber segment operating income of $1.1 million over the third quarter of 2013 largely resulted from growth in revenue from residuals, and the benefits of a weaker Canadian dollar, stronger benchmark prices and lower export tax rate which contributed to a 16% improvement in average unit mill net realizations and more than offset increases in unit log and cash conversion costs. Unit mill net realizations refers to gross sales realizations on Conifex produced lumber, net of export taxes and freight and distribution costs, per thousand board feet of lumber shipments.

The Company recorded a foreign exchange translation gain of $0.9 million in the third quarter of 2014 compared to a translation loss of $0.8 million in the previous quarter and $0.2 million in the third quarter of 2013. On a cumulative basis, the translation gains and losses resulting from currency fluctuations had negligible effect on the year to date net income for 2014 and 2013. The foreign exchange translation gain or loss largely reflects the effect of the change in the value of the Canadian dollar relative to the value of the U.S. dollar on U.S. dollar denominated working capital balances and is discussed further under “Corporate costs and other items”.

Third quarter 2014 EBITDA of $5.0 million was comprised of lumber segment EBITDA of $5.8 million offset by corporate costs and other items of $0.8 million. Lumber segment EBITDA improved by $1.8 million over the third quarter of 2013 and declined by $2.2 million from the second quarter of 2014. An increase in interest expense of $2.2 million and amortization costs of $1.7 million is reflected in the year over year decline of net income of $3.8 million while consolidated EBITDA, which excludes these non-cash or non-operational items, remained consistent at approximately $16 million for both year to date periods.

At September 30, 2014, the Company had cash on hand of $15.0 million compared to $18.6 million at December 31, 2013. The Company ended the third quarter of 2014 with consolidated net debt of $101.9 million (December 31, 2013 - $44.0 million) and net debt to capitalization ratio of 45% (December 31, 2013 – 27%). A significant portion of the year to date increase in consolidated net debt was attributable to borrowings under the project financing facility related to the Power Generation Project (as described below), which is largely structured on a non-recourse basis to the lumber segment assets and to the parent company, Conifex Timber Inc. At September 30, 2014, excluding borrowings under the project finance facility, net debt was $29.4 million (December 31, 2013 - $21.2 million) and the net debt to capitalization ratio was 19% (December 31, 2013 – 15%).

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, except share and per share amounts, unaudit	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales -Lumber - Conifex produced	57.9	63.6	166.6	49.0	150.3
- Lumber - wholesale	22.9	24.6	60.4	7.1	19.2
- By-products	6.8	8.0	20.5	4.9	15.0
- Logistics services	3.3	3.4	10.1	4.2	11.4
Total Sales	90.9	99.6	257.6	65.2	195.9
EBITDA (1)	5.8	8.0	20.8	4.0	21.5
Amortization and other income	2.9	2.6	8.1	2.2	6.6
Operating income	2.9	5.4	12.7	1.8	14.9
Statistics					
Lumber shipments - Conifex produced (MMfbm)	130.4	146.4	372.7	129.3	368.3
Lumber shipments - Wholesale (MMfbm)	41.9	43.3	84.8	17.6	47.1
Lumber production (MMfbm)	125.6	134.9	388.9	123.0	383.0
Average exchange rate - US$/Cdn$ (2)	0.918	0.917	0.914	0.963	0.977
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$ 356	$ 335	$ 353	$ 328	$ 351
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (4)	$ 388	$ 365	$ 386	$ 341	$ 359

(1) The EBITDA calculation represents earnings before interest, taxes, depreciation and amortization, and has been reported without reference to deductions for non-cash charges related to employee compensation as presented in previous quarters. EBITDA for all quarters presented has also been restated to exclude such items.
(2) Source: Bank of Canada website www.bankofcanada.ca
(3) Source: Random Length Publications Inc.
(4) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate

Overview

WSPF #2 & Btr ("WSPF") prices averaged US$ 356 during the third quarter of 2014, an increase of US$ 21 per thousand board feet or 6% from the previous quarter.[1] The quarter over quarter improvement was generally attributable to favorable weather conditions in North America that supported seasonally stronger housing construction activity and a return to more normalized supply side shipments and inventory levels as shipments of heightened volumes during the previous quarter due to earlier transportation disruptions largely abated. WSPF prices improved by US $28 per thousand board feet or 9% over the third quarter of 2013. The Canadian dollar averaged $0.92 compared to the U.S. dollar during the second and third quarters of 2014 compared to $0.96 cents during the third quarter of 2013.

Shipments of Conifex produced lumber, which returned to more typical levels and were similar to volumes recorded in the third quarter of 2013, represented a decline of 11% compared to record shipment volumes in the previous quarter during which a backlog created by industry wide transportation disruptions was largely caught up.

[1] Prices as quoted in Random Lengths Publications Inc.

On February 3, 2014, the Company completed the acquisition of Lignum Forest Products LLP ("Lignum"), a private partnership which operates a lumber marketing and distribution business. Lignum serves customers and distributes products that the Company believes are complementary to those of Conifex. Compared to the previous quarter, wholesale lumber revenues declined by 7% and shipments declined by 3%. Compared to the third quarter of 2013, the addition of Lignum contributed towards an approximate quarter over quarter tripling of wholesale lumber revenues and more than doubling of wholesale lumber shipments.

The Company continued to experience steady demand from its key markets, and the proportion of shipment volumes of Conifex produced lumber that went to export markets was consistent with those of the previous quarter. During the third quarter of 2013, the Company shipped a higher proportion of overall shipments to China than usual in response to the relatively weaker demand and pricing environment in the U.S. market. The export tax rate on shipments to the U.S. was zero percent during the first nine months of 2014 and averaged 5% during the third quarter of 2013.

Lumber production volumes of approximately 126 million board feet reflected a decline of 7% from the previous quarter and an increase of 2% over the second quarter of 2013.

The lumber segment recorded operating income of $2.9 million for the third quarter of 2014 compared to $5.4 million in the second quarter of 2014 and $1.8 million in the third quarter of 2013. The decline in lumber segment operating income of $2.5 million over the previous quarter was primarily attributable to a 2% improvement in average unit mill net realizations that was more than offset by an 11% decrease in shipments of Conifex produced lumber, 15% lower revenue from residuals, 9% increase in unit log costs, and 3% increase in unit cash conversion costs. Compared to the third quarter of 2013, lumber segment operating income improved by $1.1 million as the benefits of a weaker Canadian dollar, stronger benchmark prices and lower export tax rate which contributed to a 16% increase in average unit mill net realizations, and 36% growth in revenue from residuals, more than offset a 13% increase in unit log costs and 9% increase in unit cash conversion costs.

Lumber segment EBITDA of $5.8 million declined by $2.2 million from the previous quarter and improved by $1.8 million over the third quarter of 2013. An increase in amortization costs of $1.7 million is reflected in the year over year decline in lumber segment operating income of $2.2 million while segment EBITDA remained generally consistent at approximately $21 million for both year to date periods.

Due to the near term softening in lumber markets in China and Japan, management expects the price discounts on sales to China to remain relatively wide and the price premium on sales to Japan to remain relatively narrow. Management expects Canadian equivalent benchmark lumber prices to remain comparably flat through the end of 2014 and, given these conditions, average unit mill net realizations to be similar to or slightly below those in the third quarter of 2014. In the fourth quarter of 2014, management expects moderate gains in lumber segment productivity, production and shipments and little change in quarter over quarter overall manufacturing costs.

<u>Sales</u>

Lumber shipments of Conifex produced lumber totalled approximately 130 million board feet during the third quarters of 2014 and 2013 and was more representative of typical volumes than the record 146 million board feet shipped during the second quarter of 2014. Shipments were heightened during the previous quarter to compensate for the backlog created by industry wide transportation disruptions earlier in the year. Wholesale lumber shipments of 42 million board feet were similar to the previous quarter and reflected an increase of approximately 24 million board feet over the third quarter of 2013. The increase in wholesale lumber shipments is substantially attributable to the addition of Lignum shipments from February 2014.

Compared to the previous quarter, gross revenues from shipments of Conifex produced lumber declined by 9% largely as a result of 11% lower shipment volumes offset by a 2% increase in unit gross sales realizations. Average unit mill net realizations increased by 2% compared to a 6% increase in Canadian equivalent benchmark prices. Unit mill net realizations were negatively impacted by two factors. First, due to the typical shipment lag of approximately one month, shipments during the third quarter of 2014 included orders taken during last few weeks of the previous quarter when average benchmark prices were US$ 32 lower than the average for the prevailing quarter. Second, the rise in the benchmark lumber prices, which is broadly representative of construction grade lumber sold in the North American market, was not reflective of generally weaker demand in the Japanese and Chinese markets. The relatively weaker demand from export markets resulted in narrower premiums earned on higher grades of lumber which are typically destined for Japan and wider discounts on lower grades of lumber which are usually sold to China.

Compared to the third quarter of 2013, gross revenues from shipments of Conifex produced lumber increased by 18% and reflected a modest 1% growth in shipment volumes and a 17% improvement in unit gross sales realization. An increase in unit mill net realizations of 16%, which compares favorably to the 14% improvement in Canadian equivalent benchmark prices, was largely attributable to stronger prices and lower export tax on shipments to the U.S.

On a year-to-date basis, gross revenues from shipments of Conifex produced lumber increased by 11% over the same period last year with the improvement primarily attributable to higher average lumber prices. Year over year wholesale lumber shipments almost doubled and gross revenues from wholesale lumber shipments tripled with the increase primarily attributable to the aforementioned addition of Lignum in February 2014.

The table below shows the percentage of net lumber revenue earned from and volume shipped to each geographic market (based on Conifex produced lumber).

	Q3 2014	**Q2 2014**	**YTD 2014**	**Q3 2013**	**YTD 2013**
By Revenue (net of freight)					
Canada	11%	12%	12%	11%	11%
USA	51%	46%	50%	25%	43%
Japan	9%	9%	9%	12%	11%
China and other	29%	33%	29%	52%	35%
	100%	100%	100%	100%	100%
By Shipment Volume					
Canada	10%	12%	12%	10%	11%
USA	46%	43%	46%	23%	40%
Japan	7%	6%	6%	7%	8%
China and other	37%	39%	36%	60%	41%
	100%	100%	100%	100%	100%

Shipment patterns to the Company's key geographical markets remained consistent during the second and third quarters of 2014 while the third quarter of 2013 displayed a higher than usual volume of shipments to China as a result of relatively weak demand and pricing in the U.S. market. On a year-to-date basis, shipment volumes to the North American market have increased by 24% while shipment volumes to the Japanese and Chinese markets have declined by 11% and 21%, respectively, compared to the first nine months of 2013. A portion of the premium products that would typically be destined for the Japanese market was diverted to alternative markets in the current year in response to softer demand and to the disruptions at the port in Vancouver, British Columbia. Year over year average unit mill net realizations from shipments to Japan, the North American markets and China have improved by 11%, 7%, and 2%, respectively.

Revenue from chips and other residuals declined by 15% over the previous quarter with the decrease primarily attributable to lower shipment volumes. Compared to the third quarter of 2013, growth in revenue from by-products of approximately 36% was primarily attributable to increases in unit chip prices, which are related to fluctuations in NBSK pulp prices, and higher shipment volumes of wood chips and other residuals.

Production and Operations

Lumber production totalled 126 million board feet during the third quarter of 2014, which represented a decline of 7% over the previous quarter and a modest 2% increase over the third quarter of 2013. Current year-to-date production of 389 million board feet reflected a small increase over the same period last year and an annualized operating rate of approximately 96% (on a two-shift basis and excluding lumber capacity attributed to the idled sawmill). Productivity was adversely impacted by the absence of key operations and maintenance personnel due to the typical annual vacation period during July and August of 2014 but showed marked improvement in the closing weeks of the quarter.

Costs of goods sold includes costs related to the raw materials and manufacturing of Conifex produced lumber, purchases of wholesale lumber and freight procurement costs related to third party revenue generated by the Company's logistics business. Wholesale lumber can be purchased on a free on board origin or other destination basis. As the entire third party purchase is recorded as cost of goods sold, this category typically includes freight costs embedded in the delivered price paid to the vendor. The decrease in overall cost of goods sold of 7% from the second quarter of 2014 is primarily attributable to lower shipments of Conifex produced and third party lumber. The increase in cost of goods sold of 39% over the third quarter of 2013 is primarily attributable to the increase in wholesale lumber shipment volumes and higher unit log and cash conversion costs.

An increase in unit log costs of 9% over the second quarter of 2014 was attributable to an increase in average delivered log costs and a decline in lumber recoveries partially offset by an increase in residual recoveries. The increase in the unit cost of delivered logs was attributable to higher stumpage and contractor rates and harvesting and delivery inefficiencies related to temporary disruptions from local forest fires. Unit log costs increased by 13% over the third quarter of 2013. Year-to-date unit logs costs increased by 11% over last year primarily as a result of an increase in average delivered log costs. The increase in delivered log costs is mainly attributable to costs associated with increased stumpage rates, logging and hauling rates, and higher purchased log costs. The Company expects further modest increases in log costs over the fourth quarter of 2014.

An increase in unit cash conversion costs of 3% over the second quarter of 2014 was primarily attributable to lower productivity and higher labour costs partially offset by lower energy costs. An increase in unit cash conversion costs of 9% over the third quarter of 2013 was primarily attributable to higher labour and energy costs, greater use of contractor services and heightened safety related and maintenance practices.

Per unit freight and distribution costs related to shipments of Conifex produced lumber were consistent in the second and third quarters of 2014 and increased by approximately 27% over the third quarter of 2013. Factors contributing to the increase included the weaker Canadian currency as freight costs outside of Canada are typically denominated in U.S. dollars, higher fuel costs, variations in shipping patterns, and higher costs associated with alternative freight movements and heightened competition for trucks as a result of the seasonal rail car shortages and shipment disruptions at the main container port in Vancouver, British Columbia during the first quarter of 2014.

Bioenergy Segment

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

Construction of the Power Generation Project was largely completed and on budget at September 30, 2014. Procurement and engineering activities were completed and a number of systems were being tested and commissioned. A majority of the operations and maintenance team commenced employment earlier in the year and have participated in the refurbishment work and continued to play an important role in the testing and commissioning phase. Recent developments related to the Power Generation Project are described under Subsequent Events below.

Capital expenditures related to the Power Generation Project totaled $14.3 million during the third quarter of 2014 compared to $20.1 million during the second quarter of 2014 and $3.4 million during the third quarter of 2013. The current year-to-date spend of $47.9 million has been funded by drawings on the construction loan facility completed in November 2013.

Corporate costs and other items

(millions of dollars)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Corporate costs	1.4	1.0	4.0	1.0	3.9
Borrowing costs and accretion	1.4	1.5	4.5	0.7	2.5
Foreign exchange (gain) loss	(0.9)	0.8	(0.3)	0.2	-
	1.9	3.3	8.2	1.9	6.4

The variability in corporate costs in the comparative quarters is primarily attributable to expenses related to the Company's performance based incentive plans. The Company provides a long-term share-based incentive plan for directors and key personnel and a short-term cash-based incentive plan. Amounts accrued under the long-term incentive plan are impacted by the market value of the Company's common shares. Overall year-to-date corporate costs are comparable to the same period last year, with higher expenses related to occupancy and personnel changes and professional services largely offset by lower accruals under the short-term incentive plan.

Borrowing costs and accretion are comprised of interest expense and amortization of costs related to debt issuance and accretion of convertible notes and senior secured notes. The increase in year-to-date borrowing costs of $2.0 million over the first nine months of 2013 is primarily attributable to increased drawings under the revolving loan facilities and the issuance of promissory notes, bearing interest at a rate of 8% per annum, in the aggregate principal amount of $30 million in September 2013.

The foreign exchange translation gain or loss recorded for each quarter results from the revaluation of U.S. dollar-denominated working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the rate of exchange prevailing at the reporting date whereas revenues and expenses are typically recorded at average rates during the period. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period. The largely unrealized foreign exchange gain of $0.9 million recorded in the third quarter of 2014 reflects the approximate 5% depreciation of the Canadian dollar at September 30, 2014 compared to June 30, 2014 and largely reverses the 4% appreciation of the Canadian dollar during the previous quarter. On a cumulative basis, the translation gains and losses resulting from currency fluctuations had minimal impact on the year to date net income for 2014 and 2013.

The Company utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and to manage its interest rate variability. Realized and unrealized gains or losses from the revaluation of lumber derivative instruments to fair values at period end are recognized as other income or expense each period and allocated to lumber segment operating results. The Company recorded gains from lumber derivative instruments of $0.2 million in the first nine months of 2014 compared to $0.4 million in the first nine months of 2013. The construction loan provided under the Company's project finance facility (discussed further below) consists of a floating rate tranche and a fixed rate tranche. Concurrent with the completion of the project finance facility in November 2013, 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 loan and the subsequent term loan to fixed interest rates. The realized and unrealized gains or losses on the interest rate swap instruments are capitalized during the construction period and planned to be recorded as interest expense once the Power Generation Project commences commercial operations. The loss under the interest rate swap instruments in the first nine months of 2014 was *de minimus*.

Income tax

The Company had unused non-capital tax loss carry forwards totalling approximately $30.7 million as at December 31, 2013. Although the Company expects to realize the full benefit of the loss carry forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefits of its deferred tax assets available to reduce any future taxable income.

LIQUIDITY AND CAPITAL RESOURCES

The following table is a summary of selected financial information as at the end of the third quarters of 2014 and 2013 and the year ended December 31, 2013**:**

(millions of dollars, unaudited)	**Q3 2014**	**Q4 2013**	**Q3 2013**
Cash	10.5	17.4	29.3
Cash - restricted	4.5	1.2	-
Operating working capital	41.3	25.1	25.0
Operating loan	(4.8)	-	-
Senior secured notes payable	-	-	(7.0)
Convertible notes	(9.5)	(8.8)	-
Current portion of long-term debt	(2.1)	(2.1)	(2.1)
Net current assets	39.9	32.8	45.2
Long-term assets related to power project	116.5	68.6	45.9
Long-term assets - lumber segment and corporate	81.4	79.5	74.0
Net assets	237.8	180.9	165.1
Non-interest bearing long-term liabilities	15.5	12.9	12.2
Long-term debt - power project construction loan	72.4	22.8	-
Long-term debt - other	28.1	28.9	29.4
Convertible notes	-	-	8.6
Shareholders' equity	121.8	116.3	114.9
	237.8	180.9	165.1
Ratio of current assets to current liabilities	1.8	1.7	2.1
Net debt to capitalization, non-recourse borrowings excluded	19%	15%	13%
Net debt to capitalization, non-recourse borrowings included	45%	27%	13%

The Company's current principal sources of funds are cash flow from operations, cash on hand and borrowing availability under its revolving credit facilities and project finance facility related to the Power Generation Project. The revolving credit facilities are provided by leading Canadian chartered banks and are used primarily to support working capital requirements in the lumber segment. The revolving credit facilities total $32.5 million and consist of a $25.0 million asset backed credit facility and a $7.5 million demand loan which was assumed in connection with the acquisition of Lignum. Borrowings under the revolving credit facilities totaled $4.8 million at September 30, 2014. The project finance facility is provided to CP Partnership and includes up to $82.0 million as a development and construction loan, an $18.95 million letter of credit facility and a $1.75 million revolving operating facility. The project finance facility is primarily secured by a first priority security interest on the Power Generation Project assets and recourse to affiliates is largely limited to a $5 million contingent equity letter of credit issued by the Company. At September 30, 2014, CP Partnership had drawn $72.4 million of the construction loan and issued letters of credit totaling $6.8 million.

The Company's working capital levels fluctuate throughout the year and are affected by a variety of factors, including changes in sales volume and price, shipment patterns, operating rates, seasonality and the timing of receivables and the payment of payables and expenses. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months to help ensure adequate supply of fibre to its mills during the spring months. Factors such as disruption of transportation services by third party providers and variability in export shipments can impact the level of finished goods inventory. The increase in operating working capital of approximately $16 million at September 30, 2014 compared to December 31, 2013 is primarily attributable to incremental working capital related to the acquisition of Lignum in February 2014 and, to a lesser extent, changes in log and transit finished goods inventory levels and expected timing of certain reforestation obligations.

The Company's long-term debt consists primarily of senior secured promissory notes in the aggregate principal amount of $30 million. The promissory notes mature in September 2017, bear interest at a rate of 8% per annum, and can be partially or fully repaid by the Company at any time without penalty.

Excluding the effects of the borrowings under the construction loan, the Company ended the third quarter of 2014 with a net debt to capitalization ratio of 19% compared to 15% at December 31, 2013.

As part of its overall strategy, the Company may acquire businesses or additional assets from time to time as such opportunities arise. As a result, the Company may require substantial additional capital resources. The Company expects such additional capital resources will be generated from debt financing and/or the sale of equity securities, but no assurance may be given that such additional capital resources will be available on satisfactory terms, or at all.

The Company monitors expected liquidity levels by regularly preparing rolling cash flow forecasts to ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. The Company expects lumber segment capital expenditures to total approximately $18.0 million during the current year and intends to fund the capital program primarily from internally generated cash flows. The Company expects the project finance facility will provide the remainder of the funding required to complete the construction of the Power Generation Project. Based on its current forecasts, the Company expects sufficient liquidity will be available to meet its obligations in 2014.

Selected Cash Flow Items

(millions of dollars, unaudited)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Operating Activities					
Cash provided before working capital changes	5.1	5.4	18.0	2.7	18.0
Cash provided (used) in non cash working capital	0.2	14.9	(3.7)	(6.3)	(5.0)
Cash provided from (used in) operating activities	5.3	20.3	14.3	(3.6)	13.0
Investing Activities					
Additions to:					
Capital assets - power project	(15.1)	(16.4)	(47.2)	(3.9)	(11.0)
Capital assets - lumber and corporate	(3.7)	(1.7)	(8.4)	(4.9)	(8.2)
Other long-term investments	-	(0.6)	(0.6)	-	-
Acquistion of subsidiary	-	-	(4.8)	-	-
Cash used in investing activities	(18.8)	(18.7)	(61.0)	(8.8)	(19.2)
Financing Activities					
Proceeds from issuance of secured notes	-	-	-	30.0	35.0
Proceeds from construction loan - power project	16.2	17.4	49.7	-	-
Proceeds from (repayment of) operating loan	(1.3)	(10.2)	(2.0)	7.0	7.0
Repayment of senior secured notes	-	-	-	(5.0)	(17.0)
Repayment of long-term debt	(0.4)	(0.5)	(1.4)	(0.4)	(1.3)
Finance expenses and fees paid	(1.4)	(0.7)	(3.2)	(0.2)	(2.3)
Cash provided from (used in) financing activity	13.1	6.0	43.1	31.4	21.4
Change in cash	(0.4)	7.6	(3.6)	19.0	15.2

Cash provided from (used in) non-cash working capital items

(millions of dollars)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Trade and other receivables	1.5	(4.5)	0.9	(1.3)	0.7
Inventories	(4.2)	25.0	0.4	(11.3)	(14.5)
Accounts payable and accrued liabilities	(0.8)	0.1	(3.8)	4.0	8.6
Other	3.7	(5.7)	(1.2)	2.3	0.2
Cash provided from (used in) non cash working capital	0.2	14.9	(3.7)	(6.3)	(5.0)

Operating activities provided cash of $5.3 million in the third quarter of 2014 and $20.3 million in the second quarter of 2014 and consumed cash of $3.6 million in the third quarter of 2013. The variability between the second and third quarters of 2014 was due primarily to the net change in non-cash working capital levels. During the second quarter of 2014, log inventories were drawn down by $19.8 million due to the seasonal curtailment of harvesting and delivery activities and finished goods inventories were reduced by $5.4 million as industry wide transportation disruptions eased. The increased investment in inventories during the third quarters of 2014 and 2013 was largely attributable to the build in log inventories to normalized levels after being drawn to seasonal lows at the end of the preceding quarters.

Investing activities during the third quarter of 2014 totalled $18.8 million on a cash basis and were comprised of $15.1 million of expenditures on the construction of the Power Generation Project and $3.7 million on lumber segment capital expenditures. In the previous quarter, investing activities included $16.4 million in the Power Generation Project and $1.7 million in capital improvements in the lumber segment. Lumber segment capital expenditures during the first nine months of 2014 were weighted towards the replacement and upgrade of aging equipment and technology and safety related and asset protection projects. Capital expenditures on a cash basis during the first nine months of 2013 consisted of $8.2 million in the lumber and corporate segment, primarily on mobile equipment, items related to major maintenance, safety and asset protection, and relocation of the corporate office, and $11.0 million on the Power Generation Project.

Financing activities during the third quarter of 2014 consisted primarily of construction loan proceeds of $16.2 million, repayment of revolving credit facilities of $1.3 million and payment of finances expenses of $1.4 million and provided net cash of $13.1 million. Net cash provided from financing activities during the second quarter of 2014 totalled $6.0 million and included proceeds from the construction loan of $17.4 million and repayment of revolving credit facilities of $10.2 million. Material financing activities during the first nine months of 2013 included gross proceeds of $35.0 million from the issuance of senior secured promissory notes, repayment of previously issued senior secured notes of $17.0 million, proceeds from the revolving credit facility of $7.0 million, and payment of finance expenses and fees of $2.3 million.

Overall cash balances decreased by $0.4 million during the third quarter of 2014. The Company had unrestricted cash of $10.5 million at September 30, 2014 compared to $17.4 million at December 31, 2013.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts,	2014			2013				
unaudited)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	90.9	99.6	67.2	63.7	65.3	64.5	66.1	60.0
Operating income (loss)	1.5	4.4	2.8	2.2	0.7	3.3	6.6	(2.4)
Net income (loss)	1.1	2.0	1.6	1.1	(0.1)	2.4	6.2	(3.5)
Net income (loss) per share - basic	0.05	0.10	0.08	0.05	(0.01)	0.12	0.30	(0.18)
Net income (loss) per share - diluted (1)	0.05	0.10	0.08	0.05	(0.01)	0.12	0.29	(0.18)
EBITDA (2)	5.0	5.9	5.5	4.5	2.5	5.0	8.8	(1.1)
Shares outstanding - weighted average (millions)	20.9	20.9	20.8	20.8	20.8	20.8	20.7	19.6
Statistics								
Lumber shipments - Conifex produced (MMfbm)	130.4	146.4	95.9	118.6	129.3	119.2	119.8	110.2
Lumber production (MMfbm)	125.6	134.9	128.3	116.3	123.0	135.8	124.2	108.4
Average exchange rate - US$/Cdn$ (3)	0.918	0.917	0.906	0.953	0.963	0.977	0.991	1.009
Average WSPF 2x4 #2&Btr lumber price (US$) (4)	$ 356	$ 335	$ 367	$ 370	$ 328	$ 334	$ 390	$ 335
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(5)	$ 388	$ 365	$ 405	$ 388	$ 341	$ 342	$ 393	$ 332
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	1.1	2.0	1.6	1.1	(0.1)	2.4	6.2	(3.5)
Add: Interest expense	1.1	1.2	1.3	1.2	0.4	0.5	0.6	0.5
Amortization	2.8	2.7	2.6	2.2	2.2	2.1	2.0	1.9
EBITDA (6)	5.0	5.9	5.5	4.5	2.5	5.0	8.8	(1.1)

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

(2) The EBITDA calculation represents earnings before interest, taxes, depreciation and amortization, and has been reported without reference to deductions for non-cash charges related to employee compensation and changes in the balance sheet carrying value of convertible debentures as it was presented in previous quarters. EBITDA for all quarters presented has also been restated to exclude such items.
(3) Source: Bank of Canada website www.bankofcanada.ca.
(4) Source: Random Lengths Publications Inc.
(5) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate.
(6) May not total exactly due to rounding.

The Company's financial results are impacted by a variety of market related factors, including fluctuations in lumber prices, fluctuation in prices of certain commodities related to by-product revenue and manufacturing inputs, and changes in foreign exchange rates. Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. The Company primarily relies on third parties for transportation of its products, as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact operations or cost structure. Other more company specific factors that influence quarterly trends include operating rates and transactions of a non-recurring nature. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months, primarily December to March, to ensure adequate supply of fibre to its mills during the spring months when logging operations are largely curtailed due to unstable road conditions. The Company completed the acquisition of Lignum, a lumber marketing and distribution business, in February 2014.

SUBSEQUENT EVENTS

Update on Mackenzie Power Generation Project

On October 9, 2014, the Company announced that CP Partnership had largely completed construction of its Mackenzie Power Generation Project on budget and was commissioning and operating its various systems in the ordinary course. On October 14, 2014, the Company announced that CP Partnership commenced its 72 hour run test required to achieve the commercial operation date ("COD") in accordance with the EPA on Saturday, October 11, 2014. The entire facility performed well and met performance expectations for a period of 24 hours. However, CP Partnership subsequently halted the test prior to completion as a result of a failure of certain newly installed electrical equipment.

On October 30, 2014, the Company announced that based on its current preliminary estimate and initial consultations with its contractors and original equipment vendors, it expects to complete repairs to the damaged equipment and commence commercial operations at the Mackenzie Power Generation Project towards the end of the first quarter of 2015. Conifex currently expects that any additional carrying costs due to the delay of commercial operations and incremental costs associated with equipment repairs will be substantially covered under CP Partnership's insurance policies.

OUTLOOK AND STRATEGY

Through the balance of the year, the Company intends to remain focused on implementing plans related to its Power Generation Project and working towards expediting the COD. The Company also expects to establish a long-term plan for its idled and operating Mackenzie mills following the release of information regarding future sawlog harvest levels in the Mackenzie Timber Supply Area by the Ministry of Forests, Lands and Natural Resources Operations.

OUTSTANDING SECURITIES

As at October 31, 2014, the Company had 20,912,674 issued and outstanding common shares, 100,000 options granted, 1,134,714 long-term incentive plan awards, 2,210,200 warrants, and stepped rate subordinated convertible promissory notes in the aggregate principal amount of $9,707,000, which notes are convertible into a maximum of 1,213,375 common shares of the Company, excluding any common shares issuable in payment of accrued interest thereon.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Management has made certain estimates and judgements that affect the reported amounts and other disclosures in our financial statements. These estimates and judgments are described below.

Valuation of Inventory
We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and lumber products are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs for completion and applicable variable selling expenses. Our estimated selling price is based on sales order that exist at balance sheet reporting dates and management's estimate for forecasted sales prices based on supply, demand and industry trends. Prices fluctuate over time and it is probable that market values at the time of eventual sale will differ from our estimates.

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

We review the amortization periods for our manufacturing equipment and machinery to ensure that the periods appropriately reflect anticipated obsolescence and technological change. Current amortization periods for manufacturing equipment range from 3 to 20 years. Timber licences are amortized over 60 years.
Management currently believes that Conifex has adequate support for the carrying value of its long-lived assets based on analysis including anticipated cash flows that result from our estimates of future demand, pricing and production costs, and assuming certain levels of planned capital expenditures. However, should the markets for Conifex's products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures, it is possible that we will be required to record further impairment charges.

Reforestation Obligation
Timber is harvested under various licenses issued by the Province of British Columbia, which include future requirements for reforestation. The future estimated reforestation obligation is accrued and charged to earnings on the basis of the volume of timber cut. The estimates of reforestation obligation are based upon various judgments and assumptions. Both the precision and reliability of such estimates are subject to uncertainties and, as additional information becomes known, these estimates are subject to change.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Estimated costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company’s 2013 annual information form dated March 27, 2014, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com.

On June 26, 2014, the Supreme Court of Canada (the ″**SCC**″) released its decision in *Tsilhqot'in Nation v. British Columbia* (the "**William Decision**"), upholding the First Nations' claim to Aboriginal title and rights over a large area of land in about central British Columbia. The SCC also held that Provincial laws of general application apply to land held under Aboriginal title if the laws are not unreasonable, impose no undue hardship and do not deny the Aboriginal title holders of their preferred means of exercising their rights.

Conifex does not currently have any Crown-granted timber harvesting rights in the area involved in the William Decision, and Aboriginal title hasn't been established in areas overlapping with the Company's forest tenures. Although this has created uncertainty, Conifex does not currently expect that the SCC decision will lead to any fundamental changes in how Conifex conducts its lumber and sawlog operations.

The Company believes that its dealings with First Nations, since Conifex purchased its first sawmill in 2008, have been largely consistent with the principles set out in the William Decision. The Company has been, and remains, committed to fostering long-term relations with First Nations, including in an environmentally sound manner to minimally impact the communities in which Conifex operates. The Company has and will continue to operate on the basis that resource companies must consult, and where possible, accommodate Aboriginal rights and foster positive long-term relations with First Nations communities.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2014, there were no changes in the Company’s internal controls over financing reporting that materially affected, or would be reasonably likely to materially affect, such controls.

ADDITIONAL INFORMATION

Additional information about the Company, including its 2013 Annual Information Form, is available on SEDAR at www.sedar.com.