CONIFEX

CONIFEX TIMBER INC.
THIRD QUARTER 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 12, 2010

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc. for the three and nine months ended September 30, 2010 relative to 2009, the Company's financial condition and future prospects. This interim MD&A should be read in conjunction with the unaudited interim consolidated financial statements of Conifex for the three and nine months ended September 30, 2010 and 2009. On August 27, 2010, the British Columbia Securities Commission granted the Company exemptive relief from the requirement to prepare its financial statements in accordance with Canadian generally accepted accounting principles in order to use International Financial Reporting Standards ("IFRS"). The exemptive relief order applies to the preparation of the Company's annual financial statements for years ending on or after January 1, 2010 and interim financial statements for interim periods ending on or after the completion of its Qualifying Transaction with DTR Wood Acquisitionco Ltd. ("DTR") on June 3, 2010 (the "Qualifying Transaction"). Accordingly, the financial information contained in this MD&A has been prepared in accordance with IFRS and in accordance with International Accounting Standard 34 Interim Financial Reporting.*

In this MD&A, reference is made to "EBITDA". EBITDA represents earnings before interest, taxes, depreciation and amortization, as well as before deductions for non-cash charges related to employee compensation and changes in the balance sheet carrying value of convertible debentures and other investments. The Company discloses EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

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

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

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A may constitute "forward-looking statements". Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. When used in this MD&A, words such as "estimates", "expects", "plans", "anticipates", "projects", "will", "believes", "should", "could", "may" and other similar terminology are intended to identify such forward-looking statements. Forward-looking statements reflect the current expectations and beliefs of the Company's management. Because forward-looking statements involve known and unknown *risks,uncertainties and other factors, actual results, performance or achievements of the Company or industry may be materially different from those implied by such forward-looking statements. Forward-looking statements involve significant uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including those matters described in Schedule "A" to the filing statement of the Company dated May 25, 2010 under the heading "Risk Factors", available on SEDAR at www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.*

SIGNIFICANT EVENTS

Capital expenditure program at Fort St. James

The Company has committed approximately $30 million to a capital expenditure program (the "**Cap-Ex Program**") at its Fort St. James manufacturing facility. The program is designed to upgrade and modernize specific converting and finishing processes to enable cost effective operations on a two-shift basis. The Cap-Ex Program is proceeding as scheduled and is expected to be completed by the end of December 2010 with minimal disruptions to ongoing operations. The second shift of sawmill production is expected to commence during the first quarter of 2011 and can manufacture approximately 160 million board feet of finished lumber. The total output from this location is expected to be approximately 310 million board feet on an annual basis. The increased production is expected to meaningfully reduce unit costs of production at this site.

Start-up of one shift at Mackenzie

The Company completed the acquisition of the Mackenzie Assets on June 3, 2010. Purchased assets included two sawmill complexes, harvesting rights to 932,500 cubic metres of sawlogs annually, power generation assets and a paper mill (excluding the headbox) that is being held for sale. As operations remained idle at this site, the Company incurred related fixed costs of $1.4 million during the third quarter of 2010 and $1.7 million year-to-date.

The lumber manufacturing facilities at Mackenzie had been maintained in start-up condition by the previous owners. On November 1, 2010, the Company commenced production of lumber on a one-shift basis at one of the two sawmills purchased with shipments expected to commence in early December. Start-up capital required for additional maintenance work and several key improvements is estimated at $2.5 million. The mill is expected to produce approximately 110 million board feet of lumber annually on one shift, bringing total Company production to approximately 420 million board feet by the end of the first quarter of 2011. This will represent an operating rate of approximately 56% of full production capacity on a two-shift basis and compares to an operating rate of 20% during the most recently completed quarter.

Sale of portion of assets held for sale at Mackenzie

In September 2010, the Company sold a portion of the assets held for sale originating from the acquisition of the Mackenzie Assets. Due to the difficulty of assigning an appropriate cost to the items sold, as they formed a part of a larger pool of assets, the entire proceeds of disposition of

$2.3 million was credited to the carrying value of the assets with no income recognition during the period of sale.

Ratification of labour agreement with United Steel Workers

The United Steel Workers Union represents the Company's unionized employees at the Fort St. James and Mackenzie operations. A new Collective Agreement was ratified at both locations in early September 2010 and will expire on June 30, 2013. The terms of the new agreement are similar to the previous agreement in place at Fort St. James.

SELECTED ANNUAL INFORMATION

The following table sets forth selected financial data derived from the Company's annual audited financial statements for the fiscal year ended December 26, 2009[1]:

Year ended December 26	**2009**
($000's except per share information)	
Revenues*	31,333
Expenses	42,281
Operating loss	(10,948)
Net loss	(10,331)
Basic and diluted loss per share	(2.45)

* Revenues reflect shipments for the nine-month period commencing April 2009.

As at December 26, 2009, the Company had total assets of $27,336,000.

The Company did not commence commercial operations until the first quarter of 2009 and did not deliver its first shipment of lumber until the second quarter of 2009. Accordingly, prior period information has not been presented above as management believes it is of little assistance to readers.

REVIEW OF OPERATING RESULTS

Overview

Throughout the third quarter of 2010, the Company's financial results continued to be restrained by low operating rates of approximately 20% of full production capacity on a two-shift basis. The low operating rates result in relatively higher unit costs of production as the Company absorbs the significant fixed costs related to its timberlands and manufacturing operations that would be required to operate the mills at full capacity.

[1] In connection with the Qualifying Transaction, the Company changed its fiscal year end to December 31. Prior to the Qualifying Transaction, DTR's fiscal year end was the 52 or 53 weeks ending the last Saturday of December and customarily consisted of four 13-week quarters, with every sixth year including 53 weeks.

Prices[2] for WSPF 2x4 #2 & Btr ("**WSPF**") averaged US$222 for the third quarter of 2010, a 16% improvement over the average price for the same quarter last year. Prices for WSPF averaged US$251 for the nine month period ended September 30, 2010, a 45% improvement over the same nine month period last year. Increased demand from China for lumber products is considered to be a major contributing factor to the higher average price levels achieved this year.

The advantage from the year over year improvement in lumber prices was partially offset by the strengthening of the Canadian dollar relative to its US counterpart. During the third quarter of 2010, the Canadian dollar averaged $0.96 US[3], a 5% improvement over the same quarter last year. The Canadian dollar averaged $0.97 US during the nine month period ended September 30, 2010, a 14% improvement over the average of $0.85 US during the comparable period last year.

The export tax rate charged on shipments of softwood lumber to the U.S. from British Columbia averaged 13.3% during the third quarter of 2010 and 12.2% year-to-date compared to 15% throughout the nine month period ended September 30, 2009.

KEY OPERATING RESULTS

(millions of dollars)	**Q3-10**	Q2-10	**YTD-10**	Q3-09	YTD-09
Revenues	**$ 14.5**	$ 12.6	**$ 39.1**	$ 11.9	$ 20.5
Net loss	**$ (2.9)**	$ (2.4)	**$ (6.9)**	$ (1.0)	$ (8.1)
EBITDA*	**$ (1.8)**	$ (0.9)	**$ (3.5)**	$ (0.4)	$ (6.8)
(millions of fbm)					
Shipments	**40.2**	30.7	**103.6**	39.3	67.4
Production	**39.3**	41.3	**120.1**	36.5	81.5

* EBITDA represents earnings before interest, taxes, depreciation and amortization, as well as before deductions for non-cash charges related to employee compensation and changes in the balance sheet carrying value of convertible debentures and other investments. The company discloses EBITDA as it is a measure used by analysts and the Company'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.

The Company recorded a net loss of $2.9 million or $0.19 per share for the third quarter of 2010 compared to a net loss of $1 million or $0.24 per share for the same quarter one year ago. The net loss for the nine months ended September 30, 2010 was $6.9 million or $0.76 per share compared to $8.1 million or $1.94 per share for the nine months ended September 30, 2009.

EBITDA was ($1.8) million for the third quarter of 2010, $(0.9) million for the second quarter of 2010, and ($3.5) million for the nine month period ended September 30, 2010. EBITDA was ($0.5) million for the third quarter of 2009 and ($6.8) million for the nine months ended September 30, 2009. The increase in EBITDA losses in the most recent quarter compared to the prior quarter was mainly due to the higher fixed costs related to the idled Mackenzie facilities which amounted to $1.4 million in the most recent quarter versus $0.3 million in the preceding quarter. Proceeds of $2.3 million from the sale in September 2010 of a portion of the redundant assets at Mackenzie have not been included in EBITDA for the quarter. Since higher

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

[3] Bank of Canada website www.bankofcanada.ca

shipments at Fort St. James largely offset the impact of a 17% decline in lumber prices in the most recent quarter compared to the prior quarter, EBITDA losses from the Fort St. James operations were slightly lower in the most recent quarter compared to the prior quarter.

The Company used cash of $6.9 million in its operating activities including changes in operating working capital and $13.2 million on the Cap-Ex Program during the third quarter of 2010. Cash of $2.3 million was provided by proceeds from the disposal of a portion of the assets held for sale and $2 million by proceeds from a previously approved credit facility related to the capital expenditures. The Company ended the quarter with $36.2 million cash on hand.

Production and Sales

The Fort St. James mill started manufacturing operations on a one-shift basis in March 2009 and commenced lumber shipments in April 2009. The mill produced 39 million board feet of lumber during the third quarter of 2010, a volume consistent with quarterly production levels achieved in the first half of this year and an increase of 8% over the same quarter last year.

Lumber shipments totalled 40 million board feet during the third quarter of 2010 and 104 million board feet for the nine months ended September 30, 2010. This compares to shipments of 39 million board feet during the third quarter of 2009 and 67 million board feet for the nine months ended September 30, 2009.

Lumber shipments during the third quarter of 2010 accounted for 39% of the year-to-date shipment volumes. Lower than average shipments were reflected during the second quarter of 2010 due to a planned three week curtailment of the planer mill for a capital upgrade.

Revenues totalled $14.5 million for the third quarter of 2010 which represents a 21% improvement over the third quarter of 2009, with 17% of the increase attributable to an increase in unit sales price, 2% to an increase in shipment volume and 2% to an increase in revenue from by-products.

Year-to-date revenues for 2010 totalled $39.1 million compared to $20.5 million for the nine months ended September 30, 2009. Of the $18.6 million increase in revenue this year, $9.8 million or 53% is attributable to an increase in shipment volume, $6.4 million or 34% to an increase in average unit sales price and the remaining $2.4 million or 13% to an increase in revenue from by-products. Revenue from by-products accounted for approximately 13% of total revenue for each of the nine month periods ended September 30, 2009 and 2010.

The breakdown by percent of sales revenue and shipment volume derived by geographic markets was as follows:

	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
By Revenue					
Canada	15%	19%	18%	18%	21%
USA	38%	43%	43%	62%	61%
Export	47%	38%	39%	20%	18%
	100%	100%	100%	100%	100%
By Shipment Volume					
Canada	15%	19%	19%	15%	19%
USA	36%	41%	40%	55%	53%
Export	49%	40%	41%	30%	28%
	100%	100%	100%	100%	100%

Export shipments consisted primarily of sales of lower quality products to China and premium quality products to Japan. Year over year, Conifex has significantly reduced its reliance on the U.S. market by more than doubling the proportion of lumber sales revenue derived from export sales. The proportion of total lumber sales derived from the Canadian market is relatively unchanged throughout the periods.

The year-to-date 2009 percentages show that although 28% of total shipments were made to export customers, only 18% of total lumber sales revenue was derived from these sales. The corresponding year-to-date 2010 percentages show a near convergence of the percent of total revenue (39%) and shipments (41%) derived from export sales. The change is indicative of several recent trends including the increased production of premium products for the Japanese market at the Fort. St. James mill, improved prices on export tax free shipments to China, and relatively softer prices in the #2 market.

Operations

Efficiencies realized from the completion of the first phase of the Company's Cap-Ex Program in May 2010 contributed to a 9% improvement in planer production volume during the third quarter of 2010 over previous average quarterly production levels. A key component of this phase involved the installation of a GradExpert Automated Grading system which required a planned three week shutdown of the main planer mill in late April and early May. Further improvements in drying and finishing efficiencies are expected once the second phase of the Cap-Ex Program is completed late in the fourth quarter of this year.

Cost of goods sold were $10.4 million for the third quarter of 2010 and $29.7 million for the nine months ended September 30, 2010, compared to $8.5 million for the third quarter of 2009 and $20.1 million for the nine months ended September 30, 2009. In the third quarter of 2009, the Company recorded a partial reversal of prior period inventory valuation adjustments of $1.2 million due to improved lumber prices during the quarter. This compares with a reversal of $0.5 million during the third quarter of 2010. The higher costs of goods sold in the most recent quarter over the same period last year is also attributable to costs associated with slightly higher shipment volumes as well as an increase in depreciation charge of $0.2 million arising from recent capital improvements. The increase in cost of goods sold of $9.2 million for the nine months ended September 30, 2010 over the same period last year is due primarily to increased shipment volumes. Per unit manufacturing costs between the two year-to-date periods remain relatively unchanged once the effects of inventory valuation adjustments are removed.

Freight and distribution costs on a per unit basis are 19% higher in the third quarter of 2010 than the same quarter last year, and 10% higher over comparable year-to-date periods. The higher unit costs are attributable to the notable increase in shipments to export markets which have a higher per unit freight cost component.

Export taxes incurred during the third quarter of 2010 were significantly lower than for the comparable period last year despite a 16% increase in the average “free on board” mill price on which the export tax liability is calculated. The decrease was due primarily to the substantially reduced shipment volumes to the U.S. in favour of export markets during the more recent quarter and less significantly to a slight reduction in the average export tax rate to 13.3% from 15%.

The Company recorded a loss of $0.2 million on lumber price derivatives for the third quarter of 2010 compared to a gain of $0.2 million for the same quarter last year.

Selling, general and administrative expenses increased by $1.5 million in the third quarter of 2010 over the third quarter of 2009 and $2.2 million for the nine months ended September 30, 2010 over the nine months ended September 30, 2009. The increase is attributable to the fixed expenses incurred related to the Mackenzie Assets and the addition of a corporate office in Vancouver.

Other Income and Expense

For the nine month period ended September 30, 2010, the Company recorded non-cash charges of $0.8 million to accrete the carrying value of convertible debentures and $0.5 million share revaluation expense related to the qualifying transaction.

CASH FLOW AND LIQUIDITY

SELECTED CASH FLOW ITEMS

(millions of dollars)	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
Operating Activities					
Cash used before working capital changes	**(2.5)**	(0.5)	**(4.1)**	(2.0)	(6.8)
Non - cash working capital change	**(4.4)**	(0.7)	**(7.8)**	4.0	(2.1)
Cash used in operating activities	**(6.9)**	(1.2)	**(11.9)**	2.0	(8.9)
Investing Activities					
Additions to property, plant, equipment	**(13.2)**	(2.4)	**(18.0)**	-	(0.7)
Acquisition of Mackenzie assets	**-**	(34.5)	**(34.5)**	-	-
Proceeds on disposal of assets held for sale	**2.3**	-	**2.3**	-	-
Other	**(0.1)**	0.2	**-**	-	(0.1)
Cash used in investing activities	**(11.0)**	(36.7)	**(50.2)**	-	(0.8)
Financing Activities					
Proceeds from loans	**2.0**	2.3	**4.3**	(0.7)	-
Proceeds from convertible notes	**-**	-	**2.0**	-	-
Proceeds from issue of share capital	**-**	85.9	**85.9**	-	1.0
Cash provided from financing activity	**2.0**	88.2	**92.2**	(0.7)	1.0
Change in cash	**(15.9)**	50.3	**30.1**	1.3	(8.7)

The Company’s principal sources of funds are cash flow from operations, cash on hand and its available credit facility related to the Cap-Ex Program at the Fort St. James Mill. The Company’s principal uses of funds consist of operating and capital expenditures.

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.

The Company’s working capital levels fluctuate throughout the year and are affected by maintenance downtime, changing sales patterns, seasonality and the timing of receivables and the payment of payables and expenses. The Company’s fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months to ensure adequate supply of fibre to its mills during the spring months. Changes in sales volume and price can affect the level of receivables and influence overall working capital levels. The Company believes its management practices with respect to working capital conform to common industry practices.

For the nine months ended September 30, 2010, the Company used cash of $4.1 million in operating activities before changes in working capital compared to $6.8 million for the same nine month period last year. Operating working capital changes used cash of $7.8 million for the nine months ended September 30, 2010 compared to $2.1 million for the nine months ended September 30, 2009. The increase in the current year was due to increased accounts receivable from the sale of a portion of the assets held for sale, increased input tax credit refunds related to significant capital expenditure outlays, and increased inventory levels.

Major expenditures related to investing activities for the nine months ended September 30, 2010 consisted of $18 million on the Cap-Ex Program at Fort St. James and $34.5 million on the purchase of the Mackenzie Assets. Of the total $30 million committed to the Cap-Ex Program, $1 million was spent during the fourth quarter of 2009 and $18 million during the first nine months of 2010. Most of the remaining estimated $11 million required to complete the program will be disbursed in the fourth quarter of 2010, with approximately $4 million of this amount to be funded by further proceeds from the Community Adjustment Fund ("**CAF**") loan.

In August 2009, the Company obtained a $8.5 million loan facility related to the Cap-Ex Program at Fort St. James. The loan is being provided as part of the CAF loan program sponsored by the Northern Development Initiative Trust. The CAF loan carries a fixed interest rate of 3.75% repayable in quarterly instalments over a five year period commencing June 1, 2011. The Company drew down $2.3 million of this credit facility during the second quarter of 2010 and $2 million during the third quarter of 2010.

Other sources of funds for the nine month period ended September 30, 2010 included net proceeds from the private placement of $85.9 million and proceeds from the issue of convertible debentures of $2 million.

The net increase in cash for the nine months ended September 30, 2010 was $30.1 million compared to a decrease in cash of $8.7 million for the comparable period last year. At September 30, 2010, the Company had cash on hand of $36.2 million.

Changes in Equity

The main sources of contribution to equity for the nine months ended September 30, 2010 included net proceeds of $85.9 million from the private placement and proceeds of $1.1 million from the issue of convertible debentures. The additions to equity were offset by a net loss of $6.9 million for a net increase in equity of $81 million during the period.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary	2010			2009				2008
(millions of dollars except share and per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales -Lumber	12.8	10.6	10.8	9.6	10.7	7.3	-	-
- By-products	1.7	2.0	1.3	1.2	1.2	1.1	0.2	
Total Sales	14.5	12.6	12.1	10.8	11.9	8.4	0.2	-
Operating loss	(2.6)	(1.4)	(1.6)	(2.1)	(0.9)	(1.7)	(5.4)	(2.7)
Net earnings (loss)	(2.9)	(2.4)	(1.6)	(2.1)	(1.0)	(1.7)	(5.4)	(2.5)
Net earnings (loss) per share - basic and diluted	(0.19)	(0.31)	(0.39)	(0.49)	(0.24)	(0.40)	(1.31)	(0.61)
EBITDA	(1.8)	(0.8)	(0.9)	(1.5)	(0.4)	(1.1)	(5.3)	(2.7)
Shares outstanding - end of period (millions)	15.1	15.1	4.3	4.3	4.3	4.3	4.1	4.1
Shares outstanding - weighted average (millions)	15.1	7.6	4.3	4.3	4.3	4.2	4.1	4.1
Statistics								
Lumber shipments (MMfbm)	40.2	30.7	32.8	36.2	39.3	28.0	-	-
Lumber production (MMfbm)	39.3	41.3	39.5	32.8	36.5	36.0	9.0	-
Average exchange rate - US$/Cdn$	0.962	0.973	0.961	0.947	0.912	0.858	0.803	0.825
Average WSPF 2x4 #2&Btr lumber price (US$)	$ 222	$ 266	$ 268	$ 205	$ 191	$ 174	$ 155	$ 190
Average WSPF 2x4 #2&Btr lumber price (Cdn$)	$ 230	$ 273	$ 279	$ 216	$ 209	$ 203	$ 193	$ 230

Reconciliation of EBITDA to Net Loss	2010			2009				2008
(millions of dollars)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net earnings (loss)	(2.9)	(2.4)	(1.6)	(2.1)	(1.0)	(1.7)	(5.4)	(2.5)
Add: Interest (income) expense								(0.2)
Depreciation and amortization	0.5	0.5	0.5	0.3	0.3	0.3	0.1	
Deferred union payroll liability	0.2		0.2	0.2	0.2	0.2		
Share based compensation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Accretion of convertible debentures	0.3	0.5						
Revaluation of Fourth shares to fair value		0.5						
EBITDA*	(1.8)	(0.8)	(0.9)	(1.5)	(0.4)	(1.1)	(5.3)	(2.7)

*May not total exactly due to rounding.

The Company's financial results are impacted by a variety of market related factors including fluctuation in lumber prices, price fluctuations in commodities associated with revenue derived from by-products and movements in foreign exchange rates. Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Other more company specific factors that influence quarterly trends include operating rates and transactions of a non-recurring nature.

The Fort St. James mill was acquired in August 2008 but remained idle until the Company commenced operations on a one-shift basis in March 2009 and shipments in April 2009. The losses in the fourth quarter of 2008 and first quarter of 2009 primarily reflect the fixed costs associated with the acquisition of this mill. The loss in the first quarter of 2009 also includes an inventory valuation adjustment of $2.9 million that was reflective of the historically low lumber prices during that period.

SOFTWOOD LUMBER AGREEMENT

On October 8, 2010, the U.S. Trade Representative's office requested formal consultations with Canada as provided under the dispute resolution mechanism of the Softwood Lumber Agreement. The U.S. complaint is related to the prices charged by the Province of British Columbia on a certain grade of timber harvested on public or "Crown" lands in the interior region of B.C. If the dispute is not resolved through the consultation process, either party can take the complaint to arbitration. Due to the preliminary nature of this dispute, the Company is unable at this time to reasonably estimate the likelihood or effect of an adverse determination of this dispute.

OUTSTANDING SECURITIES

As at November 12, 2010, the Company had 15,136,858 issued and outstanding common shares, 100,000 options granted under the Company's stock option plan dated June 3, 2010, 293,718 long-term incentive plan awards issued under the Company's long-term incentive plan dated June 3, 2010, and stepped rate subordinated convertible promissory notes in the aggregate principal amount of $10,000,000, which notes are convertible into a maximum of 1,250,000 common shares of the Company, excluding any common shares issuable in payment of accrued interest thereon. In connection with the appointment of Blair Mayes as Chief Operating Officer effective November 15, 2010, the Company will grant to Mr. Mayes 30,303 long-term incentive plan awards.

ACCOUNTING POLICY CHANGES

Operating Segments

Effective December 27, 2009, the Company adopted a new accounting standard (IFRS 8 *Operating Segments*) that was issued by the International Accounting Standards Board ("**IASB**"). IFRS 8 was revised and now requires disclosure of information about segment assets. This accounting policy change was adopted on a prospective basis with no restatement of prior period financial statements. The adoption of this standard had no impact on the financial statements.

Revised IAS 23, *Borrowing Costs,* is effective for the quarters ended in, and year ended December 31, 2010. IAS 23 removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The adoption of this standard had no impact on the financial statements.

Amendment IAS 39, *Financial Instruments - Recognition and Measurement*, is effective for the quarters ended in, and year ended December 31, 2010. The application of this standard amends the principles that affect a hedged risk. The adoption of this standard had no impact on the financial statements.

Amendment IFRS 7, *Financial Instrument Disclosures*, is effective for the quarters ended in, and year ended December 31, 2010. The application of this revised standard impacts the presentation and format of the primary statements and notes and these disclosures have been revised accordingly in the 2010 financial statements.

The following standards have been issued but are not yet effective:

		Effective for annual periods beginning on or after
IAS 24	(Revisions) Related party disclosures – which clarifies the definition of a related party	January 1, 2011
IFRS 9	(New standard) Financial Instruments – which introduces certain new requirements for the classification and measurement of financial assets	January 1, 2013
IFRIC 19	New Interpretation Accounting for situations where financial liabilities are settled using equity instruments	July 1, 2010

A detailed analysis of the possible applicability and potential effect of the pronouncements included above has not yet been performed.

The significant accounting policies adopted in these financial statements are set out in Note 3 of the interim consolidated financial statements.

OUTLOOK AND STRATEGY

Residential construction activity in the United States continues to be sluggish but is showing signs of gradual improvement. Lumber demand from China continues to grow at a good rate and has now reached a level where it has a material impact on Western SPF prices. The Company has demonstrated its capability to direct its lumber shipments to the geographic markets that provide more favourable supply demand balance and stronger relative pricing.

Conifex's key priority in the short term is to achieve positive EBITDA from operations. The Company's recent financial results have been held back by its unusually low operating rate relative to its capacity. Consequently, the Company commenced lumber manufacturing operations at Mackenzie on a one-shift basis on November 1, 2010, and has plans to move to a two-shift operation at Fort St. James in early 2011. These initiatives are expected to add at least 150% to lumber production volumes and therefore dilute fixed costs per unit of lumber produced and sold. The higher production, coupled with the benefits to be derived from the Cap-Ex Program nearing completion at Fort St. James, should enable Conifex to achieve positive cash flow from operations assuming a continuation of lumber prices and exchange rates realized in 2010.

ADDITIONAL INFORMATION

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