CONIFEX TIMBER INC.
THIRD QUARTER 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 7, 2018

This interim Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Conifex Timber Inc. (the "Company", "Conifex", "us", "we", or "our"), on a consolidated basis, for the quarter ended September 30, 2018 relative to the quarters ended June 30, 2018 and September 30, 2017. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2018 and 2017, as well as the 2017 annual MD&A and the December 31, 2017 audited consolidated financial statements and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

In this interim MD&A, reference is made to "EBITDA." EBITDA represents earnings before finance costs, taxes, and 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, EBITDA is not a substitute for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

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

FORWARD-LOOKING STATEMENTS

This interim MD&A contains certain forward-looking information that reflects our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; our expectation for sales realizations; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our expectation for market volatility associated with the softwood lumber dispute with the US; that we could be negatively impacted by the imposition of duties or other protective measures on our products, such as anti-dumping duties or countervailing duties on softwood lumber; our expectations for US dollar benchmark prices; potential acquisition of businesses or assets or commitments to additional capital projects; benefits that may accrue to the Company as a result of certain capital expenditure programs, our expectations regarding the Mackenzie Power Plant power production; our use of proceeds of financing operations; our expectations about discussions with United Steelworkers concerning renewal of the collective labour agreement; our expectations about the IFRS amendments; and the anticipated benefits, cost and timing of operations of our mills in the US South.

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

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 5, 2018 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.

RECENT DEVELOPMENTS

Acquisition of Sawmills in the US South and Completion of Related Financings

On July 9, 2018, we completed the acquisition of all the outstanding membership interests of Suwannee Lumber Holding Company LLC, Suwannee Timber Management LLC and Caddo River Forest Products LLC (collectively, the "BW Group") pursuant to a Securities Purchase Agreement (the "SPA") with BW SLC Holdings LLC and the minority shareholders of Caddo River Forest Products LLC (together, the "Vendors"). The total purchase price under the transaction was (i) cash consideration of US$153.2 million plus US$16.9 million, representing the net working capital of the BW Group (estimated at closing to be US$19.8 million), (ii) $60.3 million through the issuance of 9,273,291 common shares of the Company (the "Shares") to the Vendors at a price of $6.50 per Share, and (iii) 3.5 million warrants to purchase Shares for a period of five years (subject to extension in certain circumstances for a one-year period) at an exercise price of $8.78 per Share.

The cash portion of the purchase price was paid by Conifex using the net proceeds from a $64.8 million offering of subscription receipts (the "Subscription Receipts") and borrowings under the Company's new syndicated US$225.0 million senior secured credit facility (the "New Credit Facility") led by a leading US commercial bank, along with a syndicate of other lenders. A total of 10,806,332 Shares were issued to the holders of the Subscription Receipts.

The New Credit Facility consists of a US$165.0 million term loan facility and a US$60.0 million revolving credit facility with a term of five years. Availability under the revolving credit facility is determined by a borrowing base tied to eligible accounts receivable and inventory. In addition to financing a part of the purchase price of the BW Group, a portion of the New Credit Facility was utilized to repay and retire the Company's existing revolving credit facility with regards to its lumber operations.

The New Credit Facility is secured by substantially all of the Company's lumber segment assets.

The BW Group operations include a sawmill in Cross City, Florida (the "Cross City Mill") and a sawmill in Glenwood, Arkansas (the "Glenwood Mill"), which both primarily produce Southern Yellow Pine ("SYP") softwood lumber and specialty products. The Cross City Mill and Glenwood Mill have combined annual dimension lumber capacity of approximately 370 million board feet on a two-shift basis. Both the Cross City Mill and Glenwood Mill have had significant modernization capital projects in recent years.

US South Mills' Operating Results

Commercial operations at the El Dorado Mill have been recorded in our operating results from April 2018. The El Dorado Mill produced SYP lumber at an annual run rate of approximately 100 million board feet in the second and third quarters of 2018, equivalent to approximately 56% of two-shift capacity of 180 million board feet. The El Dorado Mill made modest contributions to operating income and EBITDA in the second quarter of 2018. Higher operating costs were incurred at the El Dorado Mill in the third quarter of 2018 related primarily to training of personnel required for the addition of a second shift.

Operating results of the Cross City Mill and Glenwood Mill from July 10, 2018 are included in our consolidated operating results. In our preliminary purchase price allocation, the finished lumber inventory acquired at close was revalued from cost to reflect estimated fair market value. Accordingly, our operating results for the third quarter of 2018 exclude the benefit of the gross profit that would otherwise have been recorded when the lumber shipped. The Glenwood Mill commenced training of a second shift in August 2018 following the commissioning of a second continuous dry kiln at that site.

In the third quarter of 2018, overall operating results from our US South mills were hampered by higher operating costs related to the ramp up of second shifts at two of our mills without the attendant benefit of full two-shift operating rates. We expect unit cash conversion costs to normalize as operating rates approach targeted levels.

Appointment to Management Team

Brett Bray was appointed to the new position of Vice President, US Operations and will be responsible for leading the operations at our three US South mills. Mr. Bray previously was the General Manager of the Glenwood Mill and played a key role in the successful completion of a major capital project and commencement of commercial operations at the site. Mr. Bray also has previous leadership experience with other sawmills in the US South and in the pulp sector.

Curtailment of Operations at Fort St. James Mill Due to BC Forest Fires

In August 2018, the Province declared a Provincial state of emergency due to the volatile wildfire activity in British Columbia. The Regional District of Bulkley-Nechako issued an evacuation alert due to wildfire activity for an area which included the town of Fort St. James and our mill site. Operations at our Fort St. James sawmill facility were either fully curtailed by us or partially reduced for several weeks during the summer resulting in approximately 20 million board feet of estimated lost production. In addition, logging activities were restricted in both of our operating areas in the northern interior region of B.C.

We view the health and safety of our employees and their families of paramount importance and resumed operations once we assessed it was safe to do so. We did not sustain any damage to our facilities from the wildfires.

Conifex's Collective Agreement with the United Steelworkers (USW)

Conifex's collective labour agreement with the USW union, which represents our hourly employees at the Fort St. James and Mackenzie mills, expired on June 30, 2018. Conifex is a member of the Council on Northern Interior Forest Employment Relations ("CONIFER"), which represents 13 regional sawmills in the USW negotiations. The USW local participating in the CONIFER negotiations issued a 72-hour strike notice on October 3, 2018 and moved into a legal strike position on October 6, 2018. Although we have not experienced any work stoppages related to the strike notice there can be no assurance that we will be able to negotiate an acceptable collective agreement with our employees or that strike activity may occur in the future. Any new collective labour agreement is expected to be retroactive to July 1, 2018.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information, unaudited)	Q3 2018	Q2 2018	YTD 2018	Q3 2017	YTD 2017
Sales by Segment					
Lumber	176.0	195.2	494.5	114.2	319.4
Bioenergy	6.1	5.1	18.8	6.1	17.7
	182.1	200.3	513.3	120.3	337.1
Operating Earnings by Segment					
Lumber	9.3	16.1	32.2	8.5	17.4
Bioenergy	2.8	1.4	6.2	2.5	4.7
Corporate and other unallocated items	(2.0)	(1.5)	(5.3)	(2.2)	(5.4)
	10.1	16.0	33.1	8.8	16.7
EBITDA by Segment					
Lumber	17.7	19.3	44.2	12.0	27.9
Bioenergy	3.5	2.4	9.5	3.3	8.0
Corporate and other unallocated items	(2.4)	(0.9)	(4.8)	(3.2)	(7.4)
	18.8	20.8	48.9	12.1	28.5
Net income	4.3	9.2	16.0	6.2	9.0
Net income per share - basic and diluted	0.09	0.35	0.49	0.23	0.36
Shares outstanding - weighted average (millions)	45.3	26.5	32.8	26.4	24.4
Average exchange rate - US$/Cdn$ (1)	0.765	0.775	0.777	0.798	0.766
Reconciliation of EBITDA to Net Income					
Net income	4.3	9.2	16.0	6.2	9.0
Add: Finance costs	6.5	2.6	10.7	1.6	6.0
Amortization	7.0	5.5	17.0	4.3	13.5
Deferred income tax expense	1.0	3.5	5.2	-	-
EBITDA (2)	18.8	20.8	48.9	12.1	28.5

(1) Source: Bank of Canada, www.bankofcanada.ca.
(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

Our revenues totaled $182.1 million in the third quarter of 2018, a decline of 9% from the prior quarter and an improvement of 51% over the same quarter last year. Compared to the previous quarter, revenue growth of 14% from Conifex produced lumber and residuals, largely from the addition of the Cross City and Glenwood Mills, was offset by a 48% reduction, to more typical levels, in wholesale lumber revenues. Bioenergy segment revenues were consistent with the same quarter last year and improved by 20% over the second quarter of 2018.

Third quarter lumber segment operating earnings were $9.3 million compared to $16.1 million in the previous quarter and $8.5 million in the second quarter of 2017. Lumber segment operating results included countervailing ("CV") and anti-dumping ("AD") duties expense of $6.4 million in the third quarter of 2018, $8.2 million in the second quarter of 2018 and $3.4 million in the third quarter of 2017. The bioenergy segment contributed operating earnings of $2.8 million in the current quarter compared to $1.4 million in the previous quarter and $2.5 million in the same quarter last year. Corporate costs of $2.0 million were $0.5 million higher than the previous quarter and generally consistent with the third quarter of 2017. Year-to-date operating earnings were $33.1 million, an improvement of 98% over the same period last year.

Net income for the third quarter of 2018 included a foreign exchange translation gain of $1.8 million, gain on derivative financial instruments of $2.0 million and non-recurring acquisition costs of $2.1 million. Interest expense and accretion increased by $3.9 million over the previous quarter and $4.9 million over the third quarter of 2017, largely due to the accelerated amortization of financing fees of $1.5 million related to the early extinguishment of our existing credit facility, financing costs related to the New Credit Facility, and higher interest costs based on increased borrowings related to the BW Group acquisition.

Net income for the third quarter of 2018 was $4.3 million, or $0.09 per share, compared to net income of $9.2 million or $0.35 per share in the previous quarter and $6.2 million or $0.23 per share in the third quarter of 2017. Year-to-date net income was $16.0 million, or $0.49 per share, an increase of 78% compared to the same period last year. Net income for the first nine months of 2018 included deferred income tax expense of $5.2 million. There was no income tax expense recorded for the first nine months of 2017.

EBITDA was $18.8 million in the third quarter of 2018 compared to $20.8 million in the second quarter of 2018 and $12.1 million in the third quarter of 2017. Compared to the previous quarter, an improvement in bioenergy segment EBITDA of $1.1 million partially offset a decline in lumber segment EBITDA of $1.6 million. Compared to the third quarter of 2017, lumber segment EBITDA improved by $5.7 million and bioenergy segment EBITDA by $0.2 million. EBITDA was $48.9 million for the nine-month period ended September 30, 2018, an improvement of 72% over the same period last year.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)	Q3 2018	Q2 2018	YTD 2018	Q3 2017	YTD 2017
Sales -Lumber - Conifex produced	118.3	106.0	294.4	73.3	200.8
- Lumber - wholesale	37.8	72.2	152.1	28.5	85.4
- By-products	14.8	11.2	32.3	6.9	19.6
- Logistics services	5.1	5.8	15.7	5.5	13.6
Total Sales	176.0	195.2	494.5	114.2	319.4
EBITDA	17.7	19.3	44.2	12.0	27.9
Amortization	6.4	4.5	13.6	3.5	10.2
Gain (loss) on derivative financial instruments	2.0	(1.3)	(1.6)	-	0.3
Operating income	9.3	16.1	32.2	8.5	17.4
Statistics (in millions, other than exchange rate and lumber prices)					
Production - WSPF lumber (MMfbm)	104.0	132.4	360.0	133.4	388.6
Production - SYP lumber (MMfbm)	82.6	25.0	107.6	-	-
Shipments - WSPF lumber (MMfbm)	111.8	133.8	358.2	135.3	374.5
Shipments - SYP lumber (MMfbm)	75.8	23.8	99.7	-	-
Shipments - wholesale lumber (MMfbm)	40.4	86.2	181.7	37.6	116.9
Average exchange rate - US$/Cdn$ (1)	0.765	0.775	0.777	0.798	0.766
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$482	$598	$531	$406	$381
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$630	$772	$684	$509	$497
Average SYP 2x4 #2 lumber price (US$) (4)	$469	$574	$528	$382	$431
Average SYP 2x4 #2 lumber price (Cdn$) (3)	$613	$741	$679	$478	$565

(1) Source: Bank of Canada, www.bankofcanada.ca
(2) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.
(3) Average SPF 2x4 #2&Btr and SYP Westside 2x4 #2 lumber prices (US$) divided by average exchange rate.
(4) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.

The US Census Bureau reported privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.22 million units over the third quarter of 2018, a level which was 4% higher than the same quarter last year and approximately 3% lower than the second quarter of 2018. Single-family housing starts accounted for 71% of total third quarter 2018 US housing starts, a level generally comparable to the previous quarter and an increase in units of 3% over the third quarter of 2017. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US$482 during the third quarter of 2018, a decline of 19% from the previous quarter and an increase of 19% over the third quarter of 2017.[1] Several industry analysts have attributed the decline in the US dollar benchmark price from the historical high levels in the previous quarter to increased inventory in the supply chain as transportation challenges were largely alleviated and wet weather which suppressed construction activity in several major US markets. Average benchmark prices for SYP Westside averaged US$469 during the third quarter of 2018, a decline of 18% from the previous quarter and an improvement of 23% over the third quarter of 2017[2].

The US dollar averaged US$0.765 for each Canadian dollar during the third quarter of 2018, which represented a modest weakening of the Canadian dollar compared to the previous quarter and weakening of 4% compared to the same quarter last year.[3] Canadian dollar-denominated benchmark WSPF prices, which averaged $630 in the third quarter of 2018, declined by 18% or $142 from the previous quarter and improved by 24% or $121 over the third quarter of 2017.

The US and China remained our principal markets for our BC mills and accounted for over 75% of total lumber shipments in each of the comparative quarters while shipments to Japan remained steady at approximately 9%. Shipments to other offshore markets averaged 4% of our total volumes in the comparative quarters. The balance of our lumber shipments were directed to the domestic Canadian market.

Revenues from Conifex produced lumber were $118.3 million in the third quarter of 2018 and represented an increase of 12% over the previous quarter. The growth in revenues was primarily attributable to the addition of sales from the Cross City and Glenwood Mills which offset lower shipments, reflecting reduced operating rates from our BC mills and a decline in unit sales realizations of 6%. Compared to the third quarter of 2017, revenue growth of 61% was generally attributable to the commencement of operations at our El Dorado Mill, the addition of the two new US South mills and a 19% increase in unit sales realizations from our BC mills which more than offset comparative lower shipment volumes.

Wholesale lumber revenues, which represented 21% of total lumber segment revenues in the third quarter of 2018, returned to more typical levels from the record shipment volumes and revenues reported in the previous quarter. Our wholesale lumber shipments and revenues can fluctuate strongly from time to time depending on market conditions and opportunities for profitable trades.

Increases in revenues from wood chips and other residuals of 32% over the previous quarter and 114% over the third quarter of 2017 were largely due to the addition of residual revenues from the US South mills.

Lumber production at our BC mills totalled approximately 104 million board feet during the third quarter of 2018 which represented an annualized operating rate of 79%. The lower productivity relative to the previous quarter and the same quarter last year, when operating rates exceeded 100%, was primarily due

[1] As quoted in Random Lengths Publications Inc.

[2] As quoted in Random Lengths Publications Inc.

[3] Source: Bank of Canada, www.bankofcanada.ca.

to the full curtailment, followed by reduced operating hours, at our Fort St. James mill due to area wildfires which resulted in an evacuation alert (see “Recent Developments – BC Forest Fires” above). Our US South mills produced approximately 83 million board feet of lumber which represented an annualized operating rate of 60% based on two-shift production capacity of 550 million board feet. In August, we trained personnel required for the addition of second shifts at our El Dorado and Glenwood Mills in September. We expect a meaningful improvement in operating rates over the next several quarters as the second shifts progressively ramp up at both locations.

Unit log costs increased by 9% over the previous quarter and 30% over the same quarter last year at our BC mills. The higher log costs were mainly attributable to higher market-based stumpage and purchased log costs. Unit log costs at our US South mills were generally consistent with the prior quarter.

Overall operating costs in the third quarter of 2018 were challenged by the lower operating rates at our BC mills and the additional costs associated with ramping up second shifts at two of our US South mills without the attendant benefit of higher productivity. We expect unit cash conversion costs to improve and normalize as we ramp up second shift production and approach targeted operating rates. An increase in depreciation and amortization expense of $1.9 million over the previous quarter and $2.9 million over the third quarter of 2017 was largely attributable to our expanded operations in the US South.

The decline in lumber prices throughout the third quarter of 2018 resulted in an inventory write down of $2.6 million in the third quarter of 2018 compared to a positive inventory valuation adjustment of $0.6 million in the previous quarter.

We expensed CV and AD duty deposits of $6.4 million in the third quarter of 2018, $8.2 million in the previous quarter and $3.4 million in the third quarter of 2017. The duty deposits were based on a combined rate of 20.23% for the second and third quarters of 2018 and 11.8% for the third quarter of 2017.

We recorded realized and unrealized gains on lumber futures contracts of $2.0 million in the third quarter of 2018 and losses of $1.3 million in the second quarter of 2018.

The lumber segment recorded operating income of $9.3 million in the third quarter of 2018 compared to $16.1 million in the previous quarter and $8.5 million in the third quarter of 2017. Compared to the previous quarter, lumber segment operating results were hampered by lower lumber shipments and operating rates and higher unit operating and log costs at our BC mills, higher depreciation expense, negative quarter over quarter variance in inventory valuation adjustments of $3.2 million, higher operating costs at our El Dorado and Glenwood Mills with the addition of second shift personnel, and mark to market valuation on acquired finished goods inventories that would otherwise have flowed through operating earnings at time of shipment. These factors outweighed the benefits of operating earnings from the addition of the Cross City and Glenwood Mills and positive variances from gains on lumber derivative contracts and lower CV and AD duty deposits. Compared to the third quarter of 2017, lumber segment operating results benefited from increased overall shipment and production volumes, higher sales realizations due to higher lumber prices and gains on lumber future contracts that more than offset higher softwood lumber duties and depreciation and amortization and inventory valuation expense.

Lumber segment EBITDA was $17.7 million in the third quarter of 2018 compared to $19.3 million in the previous quarter and $12.0 million in the third quarter of 2017. Lumber segment EBITDA was $44.2 million for the nine months ended September 30, 2018, an improvement of 58% over the same period last year.

Bioenergy Segment

(millions of dollars, other than statistical information, unaudited)	**Q3 2018**	**Q2 2018**	**YTD 2018**	**Q3 2017**	**YTD 2017**
Electricity sales under EPA - GWh	54.7	51.5	156.7	55.2	152.5
Electricity revenues	6.1	5.1	18.8	6.1	17.7
EBITDA	3.5	2.4	9.5	3.3	8.0
Amortization	0.7	1.0	3.3	0.8	3.3
Operating income	2.8	1.4	6.2	2.5	4.7

Our Mackenzie power generation plant (the "Mackenzie Power Plant") completed its dispatch period and resumed operations in September 2018. The Mackenzie Power Plant sold 54.7 gigawatt hours of electricity under our Electricity Purchase Agreement with BC Hydro ("EPA") in the third quarter of 2018, which represented approximately 100% of targeted operating rates. Current quarter electricity revenues increased by 20% over the second quarter of 2018 due to improved operating rates and higher seasonal electricity rates. Electricity revenues were consistent with the same quarter last year.

Cash operating costs were generally consistent with the second quarter of 2018 and improved by 7% from the third quarter of 2017. The variability in amortization expense is largely attributable to the operating status of the power plant as idled components are not depreciated during dispatch periods.

Bioenergy segment EBITDA was $9.5 million for the first nine months of 2018, an improvement of 19% over the same period last year.

Dispatch Notice

Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to "turn down" electricity purchased from us during periods of low demand by issuing a "dispatch order". In January 2018, BC Hydro issued a dispatch order with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of 112 days, encompassing the mid-May to early September 2018 period. Last year, the Mackenzie Power Plant, among others, was dispatched for 122 days encompassing the months of April, June, July and August. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

Corporate Costs and Acquisition Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $2.0 million in the third quarter of 2018, $1.5 million in the second quarter of 2018 and $2.2 million in the third quarter of 2017. Corporate costs of approximately $5.3 million were generally consistent for the first nine months of 2018 and 2017.

In addition, we recorded non-recurring costs related to the BW Group acquisition of $2.1 million in the third quarter of 2018.

Interest Expense and Finance Costs

Finance costs related to debt issuance are amortized over the remaining term of the respective credit facility. Borrowing costs attributable to the development of the El Dorado Mill were recorded as capital costs in 2017 and the first quarter of 2018.

Interest and finance costs totalled $6.5 million in the third quarter of 2018, $2.6 million in the previous quarter and $1.6 million in the third quarter of 2017. The increase in interest and finance costs over the previous quarter was primarily attributable to increased borrowings to finance the purchase of the Cross City Mill and Glenwood Mill, accelerated amortization of financing costs of $1.5 million related to the extinguishment of our existing revolving credit facility which was fully repaid, and expensing borrowing costs related to the El Dorado development. Year-to-date interest and finance costs were $10.7 million for 2018 compared to $6.0 million for 2017.

Gain or Loss on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business and to manage interest rate variability. Gains or losses on lumber derivative instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. Conifex does not presently use derivatives for trading or speculative purposes. Due to lumber market conditions characterized by steadily rising prices in the first five months of 2018 followed by significant declines during the third quarter, we recorded a gain from lumber derivative instruments of $2.0 million in the third quarter of 2018 and compared to a loss of $1.3 million in the previous quarter. We recorded a nominal gain from lumber derivative instruments in the third quarter of 2017.

The term loan for our power business consisted of a floating rate tranche and a fixed rate tranche. Our subsidiary, Conifex Power Limited Partnership, entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the term loan to fixed interest rates. Losses of approximately $0.2 million on the interest rate swap instruments were recorded as interest expense in each of the comparative quarters. The interest rate swap transactions were terminated subsequent to the end of the third quarter of 2018 due to the refinancing of the bioenergy segment term loan (see Subsequent Events).

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income 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 period end rate. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period.

The exchange rate for one Canadian dollar was US$0.772 at September 30, 2018, US$0.759 at June 30, 2018, and US$0.801 at September 30, 2017.[4] We recorded foreign exchange translation gains of $1.8 million in the third quarter of 2018 and $0.6 million in the second quarter of 2018. We recorded a foreign exchange translation loss of $1.0 million for the third quarter of 2017.

Foreign exchange differences for foreign operations with a functional currency that differs from the Company's presentation currency are recognized as Other Comprehensive Income (or Loss) and reflected in the statement of changes in equity. We recorded a loss of $5.4 million in the third quarter of 2018 and a gain of $1.0 million in the second quarter of 2018 related to foreign exchange differences for our US operations resulting from fluctuations of the Canadian dollar relative to the US dollar at the end of the relevant quarters.

Income tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. As at September 30, 2018, the Company recognized deferred income tax liabilities of $8.3 million. We recorded

[4] Source: Bank of Canada, www.bankofcanada.ca

deferred income tax expense of $1.0 million in the third quarter of 2018 and $3.5 million in the previous quarter. There was no income tax expense recorded in the third quarter of 2017.

SUMMARY OF FINANCIAL POSITION

The following table is a summary of selected financial information as at the end of each of the comparative quarters**:**

(millions of dollars, unaudited)	**Q3 2018**	**Q4 2017**	**Q3 2017**
Cash	17.6	16.9	18.3
Cash - restricted	8.0	9.3	8.8
Operating working capital	104.6	69.7	63.7
Operating loans	(1.6)	(1.6)	(1.6)
Current portion of long-term debt	(16.9)	(5.9)	(5.6)
Net current assets	111.7	88.4	83.6
Long-term assets - goodwill	161.5	3.3	3.3
Long-term assets related to Mackenzie Power Plant	112.9	113.9	115.5
Long-term assets - lumber segment and corporate	293.3	189.7	175.4
	679.4	395.3	377.8
Non-interest bearing long-term liabilities	28.5	23.4	19.7
Long-term debt - Mackenzie Power Plant	59.3	62.5	65.1
Revolving credit facility	35.9	94.2	87.1
Long-term debt - lumber segment	207.7	5.6	4.5
Shareholders' equity	348.0	209.6	201.4
	679.4	395.3	377.8
Ratio of current assets to current liabilities	2.6	2.8	2.6
Net debt to capitalization	46%	41%	42%
Net debt to capitalization (1)	41%	29%	27%

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

We believe that we maintained conservative current assets to current liabilities ratios of approximately 2.7:1 at September 30, 2018, December 31, 2017 and September 30, 2017.

We manage capital with the objective of maintaining a strong balance sheet to help ensure adequate capital resources to support operations, sustain future development and facilitate access to capital markets at competitive rates. We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion, and bank advances, less cash. Total capital is calculated as the sum of net debt and equity.

Net debt at September 30, 2018 was $301.5 million compared to $143.7 million at December 31, 2017. The change in net debt was primarily due to borrowings under the New Credit Facility to partially finance the purchase of the Cross City Mill and the Glenwood Mill, including net working capital. The net debt to capitalization ratio was 46% at September 30, 2018 compared to 41% at December 31, 2017. Excluding the effects of borrowings by Conifex Power Limited Partnership, the net debt to capitalization ratio was 41% compared to 29% at December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES
Summary of Cash Flows

(millions of dollars, unaudited)	Q3 2018	Q2 2018	YTD 2018	Q3 2017	YTD 2017
Cash generated from (used in)					
Operating activities	2.9	36.2	41.0	7.4	28.8
Financing activities	216.8	(14.1)	203.4	6.5	38.4
Investing activities	(227.0)	(9.0)	(244.8)	(22.0)	(63.1)
Increase (decrease) in cash	(7.3)	13.1	(0.4)	(8.1)	4.1

Operating Activities
We operate in a cyclical industry.

Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and price, shipment patterns, operating rates, seasonality and timing of receivables and payment of payable and expenses. Our fibre inventories exhibit seasonal swings as log inventories are increased during the fall and winter months to help ensure adequate supply of fibre to our Canadian mills during the spring months. Factors such as disruption of transportation services by third party providers, variability in export shipments and operating rates can impact the level of lumber inventories. We believe our management practices with respect to working capital conform to common business practices in our industry.

We generated cash from operations before working capital changes of $46.0 million in the first nine months of 2018 compared to $29.3 million in the first nine months of 2017. Changes in non-cash working capital, which consumed net cash of $5.0 million in the first nine months of 2018, generally reflected increases in lumber inventories at the El Dorado and Glenwood Mills due to higher operating rates towards the end of the quarter. Changes in non-cash working capital used cash of $0.5 million in the same period last year.

Financing Activities
Financing activities provided net cash of $203.4 million in the first nine months of 2018. Cash inflows included drawings on the revolving loan of $43.2 million and term loan of $216.1 million under the New Credit Facility and net proceeds from the issuance of the Shares in connection with the offering of Subscription Receipts of $60.7 million. Cash outflows included the repayment and retirement of our existing revolving credit facility of $97.5 million, repayment of other long term debt of $4.1 million and the payment of finance expenses of $14.9 million.

Financing activities provided net cash of $38.4 million in the first nine months of 2017 and included net proceeds from operating loans of $60.5 million, the offering of common shares of $14.2 million, and capital leases of $5.1 million. Cash outflows included repayment in full of our senior secured notes of $20.3 million and the El Dorado mortgage of $10.4 million, partial repayment of our term loan of $3.4 million, and the payment of finance expenses of $7.3 million.

Investing Activities
Investing activities consumed cash of $244.8 million in the first nine months of 2018 and mainly consisted of the cash portion of the purchase of the Cross City Mill and Glenwood Mill, including net working capital, of $221.7 million; $8.1 million on capital improvements at our BC mills, $2.2 million on major maintenance items at the Mackenzie Power Plant and $12.8 million related to the El Dorado Mill. Lumber segment capital expenditures for our BC mills were primarily related to the upgrade of infrastructure to support waterborne transport of logs at Mackenzie and maintenance of business projects. Expenditures related to the El Dorado Mill largely comprised remaining payments on previously accrued capital commitments and capitalization of start-up costs in the first quarter of 2018.

Investing activities consumed cash of $63.1 million in the first nine months of 2017, consisting of $6.3 million on capital improvements in the lumber segment and $56.8 million on the El Dorado Mill. Lumber segment capital expenditures for our BC mills included the completion of an upgrade to a log line at the Mackenzie sawmill, upgrade of various infrastructure related to our water transport operations and logging camps, and additions of mobile equipment.

Liquidity

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

Total liquidity is comprised of unrestricted cash and available credit under our revolving credit facilities. At September 30, 2018, we had total liquidity of $39.0 million, compared to $49.2 million at December 31, 2017 and $55.7 million at September 30, 2017. Liquidity at September 30, 2018 was comprised of unrestricted cash of $17.6 million and unused availability under our revolving credit facilities of $21.4 million. Availability under the revolving credit facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, net of specific reserves. We had $104.6 million invested in non-cash operating working capital at September 30, 2018 compared to $69.8 million at December 31, 2017.

We were required to begin depositing cash on account of softwood lumber duties imposed by the U.S. in April 2017. We expect future cash flow will be adversely impacted by the CV and AD duty deposits, to the extent the additional costs on U.S. destined shipments are not mitigated by higher lumber prices. We expensed softwood lumber duty deposits totalling $$20.9 million for the nine-month period ending September 30, 2018 and $$8.0 million for the same period last year.

We monitor expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Based on the current level of operations and our current expectations for future periods in light of the current economic environment, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facilities, will be adequate to meet our obligations through 2018. We expect the El Dorado Mill and the recently acquired Cross City Mill and Glenwood Mill to provide additional reliable sources of cash flow with productivity and other operational improvements continuing to progress through the balance of the year.

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

Off-Balance Sheet Arrangements

Off-balance sheet arrangements as at September 30, 2018 were comprised of standby letters of credit totalling $12.7 million posted by Conifex Power Limited Partnership, and operating leases for vehicles, equipment and machinery. The standby letters of credit are issued to BC Hydro and to the Agent under our term loan to support certain contractual agreements.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber price	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Sales - lumber segment	176.0	195.2	123.3	124.5	114.2	111.7	93.5	94.4
Sales - electricity	6.1	5.1	7.5	8.2	6.1	4.7	6.8	7.6
Operating income	10.1	16.0	7.0	14.7	8.8	6.4	1.5	6.7
Net income (loss)	4.3	9.2	2.5	8.0	6.2	4.2	(1.4)	5.1
Net income (loss) per share - basic and diluted	0.09	0.35	0.10	0.30	0.23	0.16	(0.06)	0.24
EBITDA (1)	18.8	20.8	9.3	17.5	12.1	10.2	6.1	11.8
Shares outstanding - weighted average (millions)	45.3	26.5	26.4	26.4	26.4	26.3	22.5	21.2
Statistics (in millions, other than exchange rate and lumber prices)								
Production - WSPF lumber (MMfbm)	104.0	132.4	123.7	129.9	133.4	131.6	123.7	118.7
Production - SYP lumber (MMfbm)	82.6	25.0	-	-	-	-	-	-
Shipments - WSPF lumber (MMfbm)	111.8	133.8	112.7	138.2	135.3	128.5	110.7	124.4
Shipments - SYP lumber (MMfbm)	75.8	23.8	-	-	-	-	-	-
Shipments - wholesale lumber (MMfbm)	40.4	86.2	55.1	45.4	37.6	38.4	41.0	40.5
Electricity production - GWh	54.7	51.5	50.5	55.2	55.2	51.0	46.3	53.0
Average exchange rate - US$/Cdn$ (2)	0.765	0.775	0.791	0.787	0.798	0.744	0.756	0.750
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$482	$598	$514	$464	$406	$388	$348	$316
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(4)	$630	$772	$650	$590	$509	$522	$460	$421
Average SYP 2x4 #2&Btr lumber price (US$) (5)	$469	$574	$540	$438	$382	$455	$456	$432
Average SYP 2x4 #2&Btr lumber price (Cdn$)(4)	$613	$741	$683	$557	$478	$612	$603	$576
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	4.3	9.2	2.5	8.0	6.2	4.2	(1.4)	5.1
Add: Finance costs	6.5	2.6	1.6	1.6	1.6	1.7	2.6	2.1
Amortization	7.0	5.5	4.5	4.8	4.3	4.3	4.9	4.6
Deferred income tax expense	1.0	3.5	0.7	3.1	-	-	-	-
EBITDA	18.8	20.8	9.3	17.5	12.1	10.2	6.1	11.8

(1) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(2) Source: Bank of Canada, www.bankofcanada.ca.
(3) Source: Random Lengths Publications Inc. – Western Spruce / Pine / Fir, per thousand board feet
(4) Average SPF 2x4 #2&Btr and SYP 2x4 #2 lumber prices (US$) divided by average exchange rate.
(5) Source: Random Lengths Publications Inc. – Southern Yellow Pine Westside, per thousand board feet.

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

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

The application of a “time of delivery factor” to the fixed price provided under the EPA produces a seasonal effect and considerable variability on quarterly revenues from electricity deliveries with the lowest revenues generally generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary up to 30% between the strongest and weakest quarters. As a major portion of the costs of electricity production, as well as interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

OUTLOOK

Although we expected some correction in lumber prices in 2018, the depth and duration of the price correction was greater than we expected. We believe current lumber prices do not properly reflect fundamental supply and demand factors that are expected to drive lumber pricing through the remainder of 2018 and 2019.

Looking at lumber supply, the interior region of BC is the second largest source of softwood lumber supply to the North American market. Permitted sawtimber harvest levels in the region are in the process of being reduced to long term sustainable levels giving effect to the mountain pine beetle epidemic. In terms of lumber demand, we expect lumber consumption will continue to grow over the next two years, driven by a continuation of gradual increases in new residential construction and more substantial increases in repair and remodelling demand. We expect the growth in lumber demand will outpace the growth in new supply, capacity utilization rates will remain high, and lumber prices will return to elevated levels.

We believe the lumber price correction that began in June 2018 is largely completed and expect lumber prices to strengthen from current levels over the closing months of the year and in 2019. We expect quarter over quarter increases in our lumber production and shipment volumes as operating rates at our BC mills normalize and we continue to ramp up second shifts at the El Dorado and Glenwood Mills. Despite the anticipated improvement in operating rates, we expect our EBITDA in the fourth quarter of 2018 to be materially lower than the third quarter due to the recent significant decline in lumber prices.

SUBSEQUENT EVENTS

Natural Gas Pipeline Interruption

On October 9, 2018, a natural gas pipeline near Prince George, BC ruptured which interrupted the supply of natural gas within the Province and temporarily affected full operation of dry kilns at our Mackenzie sawmill facility. Until supply is fully returned, there is some risk of further interruptions.

Refinancing of Conifex Power Limited Partnership Term Loan

On October 30, 2018, our wholly-owned subsidiary, Conifex Power Limited Partnership, completed a $70 million secured term loan (the "Loan") with a syndicate of private lenders to refinance its existing loan. The Loan has a 15-year term, is secured by substantially all of the power segment assets and bears interest at a rate of 6.10% per annum. The Loan is non recourse to our other operations.

TRANSACTIONS BETWEEN RELATED PARTIES

Related party transactions consist of renumeration of directors and other key management personnel with whom we have entered into employment agreements in the normal course. Further information is contained in our management information circulars in respect of our annual general meetings of shareholders, which are filed on SEDAR at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The acquisition of the Cross City Mill and the Glenwood Mill has been accounted for as a business combination using the acquisition method whereby the assets and liabilities assumed are recorded at their fair values at the acquisition date. Balances that required significant fair value adjustments for the preliminary purchase price allocation included inventory, plant and equipment and goodwill. Conifex has allocated the purchase price on a preliminary basis based on management experience and reliance on third party appraisals. There were no other significant changes to the Company's critical accounting estimates during the quarter ended September 30, 2018. Conifex's critical accounting estimates are described in its MD&A for the year ended December 31, 2017, filed under the Company's profile on SEDAR at www.sedar.com.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2018, we adopted IFRS 15, *Revenue from Contracts with Customers,* using the full retrospective method. The new standard for revenue replaces IAS 18, *Revenue,* IAS 11, *Construction Contracts,* and the related interpretations. The standard provides a new framework to determine the timing of revenue recognition and the measurement of revenue. The adoption of this standard had no significant impact on our condensed consolidated interim financial statements.
Effective January 1, 2018, we adopted IFRS 9, *Financial Instruments.* IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement.* The new standard includes amended guidance for the classification and measurement of financial assets. It also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management and contains a new impairment model which could result in earlier recognition of losses. The adoption of IFRS 9 had no significant impact on our condensed consolidated interim financial statements.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In January 2016, the International Standards Board issued IFRS 16, *Leases,* which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time.

Conifex will be applying the modified retrospective approach upon adoption of IFRS 16 on January 1, 2019. Under this approach, the right-of-use asset will be initially measured at an amount equal to the lease liability discounted at the Company's incremental borrowing rate. We continue to assess the quantitative impact of adoption of this new standard on our consolidated financial statements. Based on the lease information available to date, the adoption of IFRS 16 will not have a significant impact on our consolidated financial statements.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company's annual information form dated March 5, 2018, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com.

OUTSTANDING SECURITIES

As at November 7, 2018, the Company had 46,610,175 issued and outstanding common shares, 100,000 options granted, 1,440,671 long-term incentive plan awards, and 3,500,000 warrants.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2018, there were no changes that have materially affected, or are reasonably likely to materially affect Conifex's internal controls over financial reporting.

ADDITIONAL INFORMATION

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