CONIFEX

CONIFEX TIMBER INC.
THIRD QUARTER 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 14, 2019

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, 2019 relative to the quarters ended June 30, 2019 and September 30, 2018. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2019 and 2018, as well as the 2018 annual MD&A and the December 31, 2018 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" and "adjusted EBITDA". EBITDA represents earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated to exclude unusual items that are not ongoing and do not reflect ongoing operations of the Company. Adjusted EBITDA excludes foreign exchange gains or losses on long-term debt and our gain on the Duties Sales (as defined herein). The Company discloses EBITDA and adjusted EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA and adjusted EBITDA are non-GAAP measures, they may not be comparable to EBITDA and adjusted EBITDA calculated by others. In addition, EBITDA and adjusted EBITDA are not substitutes for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

On April 1, 2019, we completed the sale of our wholly-owned subsidiary, Lignum Forest Products LLP ("Lignum"), for an aggregate purchase price of US$11.5 million, subject to customary working capital adjustments. As required under IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations, the operating results previously reported for Lignum have been restated as discontinued operations for the relevant periods and separated from the Company's continuing operations. Unless otherwise indicated, our discussion and analysis reflects the results of continuing operations, and relevant periods have been restated accordingly. For further information relating to discontinued operations, please refer to Note 8 to the unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2019 and 2018.

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

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: the growth and future prospects of our business; our results of operations and performance; the use and availability of credit facilities or proceeds therefrom; our level of liquidity and our ability to service our debt;

our perceptions of the industries and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our ability to supply our manufacturing operations with wood fibre and the cost of wood fibre; 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 acquisitions or sale of any business or asset; our business strategy to maintain operating flexibility; commitments to additional capital projects and benefits that may accrue to the Company as a result of certain capital expenditure programs; continued positive relations with Aboriginal groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; the presentation and implementation of an acceptable asset divestiture and restructuring plan; and the anticipated benefits, cost and timing of operations of our mills in the US South.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; 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; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do 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 28, 2019 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 laws.

RECENT DEVELOPMENTS

Completion of Sale of Fort St. James Sawmill

In June 2019, we entered into a definitive agreement with a major North American lumber producer for the sale of our Fort St. James sawmill complex (the “FSJ Mill”) and associated forest licence.

The assets and liabilities related to the FSJ Mill, including fixed assets and the forest tenure, were reclassified to “Assets Held for Sale” and “Liabilities Held for Sale” in the condensed consolidated balance sheet as at September 30, 2019.

The sale closed on November 1, 2019. The purchase price, following certain customary adjustments, was approximately $38.6 million, which was used primarily to retire debt, to provide additional liquidity to better optimize performance and value at certain of our other mills and to pay transaction related costs.

Sale of Countervailing and Anti-Dumping Duty Refunds

In the third quarter of 2019 and in the previous quarter, we completed sales of our interest in duty refunds related to previous entries of softwood lumber shipments for gross proceeds of US$ 2.0 million and US$ 11.9 million, respectively, representing 42.5% of such countervailing ("CV") and anti-dumping ("AD) duty deposits (the "Duties Sales"). We believe the benefits of immediate liquidity and debt reduction outweighed the value of the discount, particularly given the highly uncertain timing, magnitude and return of any such refunds.

The transaction resulted in gains of $2.6 million in the third quarter of 2019 and $12.6 million in the previous quarter which we recorded as other income. The gains are not included in calculating adjusted EBITDA for the periods. The proceeds of the sales were received in the third quarter of 2019 and used to repay a portion of our Credit Facility (as defined herein).

Operating Rates at Our Mills

Our lumber segment operating results were hampered by lower operating rates which resulted in higher unit cash conversion costs at our FSJ Mill and our El Dorado and Glenwood, Arkansas mills in the first nine months of 2019 and our Mackenzie, BC mill (the "Mackenzie Mill") in the second and third quarters of 2019.

In response to market conditions characterized by lower lumber prices, continued imposition of softwood lumber duties, and elevated log costs in the northern interior of BC, we implemented a temporary change in operating format at our FSJ Mill in January 2019 which reduced investment in working capital and overall operating costs. Additionally, similar to a number of other BC interior lumber producers, we undertook temporary production curtailments at our BC mills. Production at the FSJ Mill was curtailed for a three-week period in February 2019 and was largely curtailed since May 2019. Production at the Mackenzie Mill was curtailed for four weeks in May 2019, resumed in early June on a modified four-day, two-shift configuration and was further curtailed for a five-week period in the third quarter of 2019.

We operate three sawmills in the US South. Commercial operations at our El Dorado mill have been recorded in our operating results from April 2018. Operating results of our Cross City, Florida and Glenwood mills are included in our consolidated results subsequent to their acquisition in July 2018. The El Dorado and Glenwood mills commenced training and operating second shifts in August 2018.

Our US mills produced Southern Yellow Pine ("SYP") lumber at an annualized run rate of approximately 274 million board feet in the third quarter of 2019, 348 million board feet in the prior quarter and 330 million board feet in the third quarter of 2018. Production levels in the first nine months of 2019, on an annualized basis, represented approximately 74% of targeted levels for 2019 and 63% of two-shift dimension lumber production capacity of 550 million board feet.

The El Dorado and Glenwood mills were converted to single-shift operating configurations in June 2019. Operating hours were extended at the Glenwood mill midway through the third quarter of 2019. The change in operating format at our Glenwood mill has resulted in increased hourly productivity and reductions in log costs, overall operating costs and investment in working capital. Our Cross City mill continues to contribute positively to operating results although third quarter sales realizations were hampered by unusually low prices for SYP decking products.

Management determined that our El Dorado mill requires further capital expenditures to operate competitively in a prolonged low lumber price environment. Accordingly, an indefinite production curtailment at the site was phased in over a 60-day period commencing in August 2019. The El Dorado mill was indefinitely curtailed in October 2019, subsequent to quarter end.

We continue to monitor lumber market conditions on an ongoing basis and intend to maintain operating flexibility to respond appropriately.

Liquidity and Credit Facility Update

Significantly weaker lumber prices over about the last four quarters, the continued imposition of duty deposits on US shipments and rapidly escalating log costs at our BC mills (with resultant production curtailments and higher operating costs) have materially adversely affected our operating cash flow. This along with increased debt levels to fund our strategic expansion in the US South, have constrained our liquidity in 2019.

We have worked collaboratively with our senior lenders and completed amendments in the third quarter of 2019 and subsequent thereto that, among other things, provided additional liquidity, and waived certain covenants and milestones. Subsequent to the end of the third quarter, we completed the sale of the FSJ Mill for net proceeds of approximately $38.6 million, of which approximately $17 million was used to repay senior bank indebtedness. Pursuant to the terms of our amended Credit Facility, we are continuing to work collaboratively with our senior lenders to complete an acceptable divestiture and restructuring plan on or before November 25, 2019. Such a plan will likely include further asset divestitures to reduce indebtedness and provide liquidity. While we currently expect to settle an acceptable plan with our lenders, there can be no assurance of the same. If we are unable to do so, unless the period is extended or the matter waived by lenders, the same would result in an event of default under our Credit Facility and our being required to seek relief under applicable debtor relief laws. We were in compliance with our debt covenants under the Credit Facility for the period ended September 30, 2019. See the “Credit Facility” and “Liquidity” sections of this interim MD&A.

SUMMARY OF OPERATING RESULTS

Consolidated Net Earnings

During the third quarter of 2019, we incurred a net loss of $16.6 million, or $0.35 per share, compared to a net loss of $9.1 million or $0.19 per share in the previous quarter and net income of $4.3 million or $0.09 per share in the third quarter of 2018. The following table summarizes our net operating results on a per segment basis.

Selected Financial Information (1)

(millions of dollars except share and per share amounts and exchange rate information, unaudited)	Q3 2019	Q2 2019	YTD 2019	Q3 2018	YTD 2018
Sales by Segment					
Lumber	60.1	91.3	276.9	151.0	370.4
Bioenergy	5.1	4.4	17.8	6.2	18.8
	65.2	95.7	294.7	157.2	389.2
Operating Earnings (Loss) by Segment					
Lumber	(15.0)	(19.1)	(47.6)	10.3	31.2
Bioenergy	1.8	0.6	5.4	2.8	6.2
Corporate and other unallocated items	(1.8)	(2.0)	(5.7)	(2.0)	(5.3)
	(15.0)	(20.5)	(47.9)	11.1	32.1
Adjusted EBITDA from continuing operations by Segment					
Lumber	(9.9)	(12.8)	(28.8)	18.7	43.5
Bioenergy	2.7	1.5	8.9	3.5	9.5
Corporate and other unallocated items	(2.0)	(1.9)	(5.2)	(4.4)	(7.8)
	(9.2)	(13.2)	(25.1)	17.8	45.2
Net income (loss) from continuing operations	(16.7)	(8.3)	(37.1)	6.0	15.3
Net income from discontinued operations	0.1	(0.8)	(0.5)	(1.7)	0.7
Net income (loss) (2)	**(16.6)**	**(9.1)**	**(37.6)**	**4.3**	**16.0**
Basic and diluted earnings (loss) per share					
Continuing operations	(0.35)	(0.18)	(0.80)	0.13	0.33
Discontinued operations	-	(0.01)	(0.01)	(0.04)	0.01
Total basic and diluted earnings (loss) per share	(0.35)	(0.19)	(0.81)	0.09	0.34
Shares outstanding - weighted average (millions)	46.9	46.6	46.6	45.3	46.6
Average exchange rate - US$/Cdn$ (3)	0.757	0.748	0.752	0.765	0.777
Reconciliation of adjusted EBITDA to Net Income (Loss)					
Net income (loss) from continuing operations	(16.7)	(8.3)	(37.1)	6.0	15.3
Add: Finance costs	7.1	7.4	20.7	6.3	10.2
Amortization	6.1	7.4	22.7	7.0	17.0
Deferred income tax expense	(5.5)	(2.7)	(9.7)	1.0	5.2
EBITDA from continuing operations (4)	(9.0)	3.8	(3.4)	20.3	47.7
Add: Foreign exchange (gain) loss on long-term debt	2.4	(4.4)	(6.5)	(2.5)	(2.5)
Gain on sale of right to duty refunds	(2.6)	(12.6)	(15.2)	-	-
Adjusted EBITDA from continuing operations (5)	(9.2)	(13.2)	(25.1)	17.8	45.2

(1) Unless otherwise noted, financial information reflects results of continuing operations.
(2) May not total due to rounding.
(3) Source: Bank of Canada, www.bankofcanada.ca.
(4) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(5) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt and gain related to the Duties Sales.

Continuing Operations
Our revenues totaled $65.2 million in the third quarter of 2019, a decline of 32% from the prior quarter and 59% from the same quarter last year. The lower revenues were largely attributable to the lumber segment which recorded reduced shipments reflecting lower operating rates at our BC and Arkansas mills and a decline in sales realizations, particularly compared to the third quarter of 2018. The fluctuation in bioenergy segment revenues were mainly due to planned downtime in the previous quarter, seasonality in rates and variability in plant dispatch periods in the comparative quarters.

We recorded operating losses of $15.0 million in the lumber segment in the third quarter of 2019, $19.1 million in the previous quarter and operating earnings of $10.3 million in the third quarter of 2018. Lumber segment operating results included CV and AD duties expense of $1.3 million in the third quarter of 2019, $2.5 million in the second quarter of 2019 and $6.3 million in the third quarter of 2018. Bioenergy segment operating earnings declined by 13% year-over-year and contributed operating earnings of $5.4 million in the first nine months of 2019 and $6.2 million in the same period of last year. Corporate costs of $1.8 million in the third quarter of 2019 reflected reductions of 9% from the prior quarter and 12% from the same quarter last year.

Net income from continuing operations included a foreign exchange loss on long-term debt of $2.4 million in the third quarter of 2019 and gains of $4.4 million in the previous quarter and $2.5 million in the third quarter of 2018. Finance costs were $7.1 million in the third quarter of 2019, $7.4 million in the previous quarter and $6.3 million in the third quarter of 2018. We recorded gains on the Duties Sales of $2.6 million in the third quarter of 2019 and $12.6 million in the prior quarter as other income. Corporate and other unallocated items included $2.1 million related to acquisition costs in the third quarter of 2018.

We recognized deferred income tax recovery of $9.7 million in the first nine months of 2019 and a deferred income tax provision of $5.2 million for the same period of last year.

Adjusted EBITDA was negative $9.2 million in the third quarter of 2019, negative $13.2 million in the previous quarter and positive $17.8 million in the third quarter of 2018. The variance in adjusted EBITDA, which was negative $25.1 million for the nine-month period ended September 30, 2019 and positive $45.2 million for the nine-month period ended September 30, 2018, was largely attributable to the lumber segment.

Discontinued Operations
Operating income from discontinued operations was $0.7 million for the first nine months of 2019 and $1.0 million for the same period of last year.

We recorded a net loss from discontinued operations of $0.5 million in the first nine months of 2019 arising from the loss on sale of Lignum. Net income from discontinued operations was $0.7 million for the comparable period last year. On a year-to-date basis, net income from discontinued operations included a foreign exchange translation loss of $0.4 million for 2019 and a foreign exchange translation gain of $0.5 million for 2018. For further information relating to Discontinued Operations, refer to Note 8 to our unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2019 and 2018.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT (1)

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)	Q3 2019	Q2 2019	YTD 2019	Q3 2018	YTD 2018
Sales -Lumber - Conifex produced	48.1	73.6	218.2	118.3	294.5
- Lumber - wholesale	0.2	3.6	15.6	12.8	28.0
- By-products	7.7	10.7	32.4	14.8	32.3
- Logistics services	4.1	3.4	10.7	5.1	15.6
Total Sales	60.1	91.3	276.9	151.0	370.4
Adjusted EBITDA (2)	(9.9)	(12.8)	(28.8)	18.8	43.5
Amortization	5.1	6.4	19.0	6.4	13.6
Gain (loss) on derivative financial instruments	-	(0.2)	(0.2)	2.1	(1.3)
Operating income (loss)	(15.0)	(19.1)	(47.6)	10.3	31.2
Statistics (in millions, other than exchange rate and lumber prices)					
Production - WSPF lumber (MMfbm)	26.0	47.6	147.2	104.0	360.0
Production - SYP lumber (MMfbm)	68.4	87.1	260.0	82.6	107.6
Shipments - WSPF lumber (MMfbm)	34.8	60.4	173.9	111.8	358.2
Shipments - SYP lumber (MMfbm)	70.2	88.8	264.3	75.7	99.7
Shipments - wholesale lumber (MMfbm)	0.3	5.4	22.3	15.5	38.0
Average exchange rate - US$/Cdn$ (3)	0.757	0.748	0.752	0.765	0.777
Average WSPF 2x4 #2&Btr lumber price (US$) (4)	$356	$333	$354	$482	$531
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (5)	$471	$445	$470	$630	$684
Average SYP 2x4 #2&Btr lumber price (US$) (6)	$376	$371	$383	$469	$528
Average SYP 2x4 #2&Btr lumber price (Cdn$) (5)	$497	$497	$509	$613	$679

(1) Financial information reflects results of continuing operations.
(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(3) Source: Bank of Canada, www.bankofcanada.ca.
(4) Source: Random Lengths Publications Inc.
(5) Average SPF 2x4 #2&Btr and SYP Westside 2x4 #2 lumber prices (US$), respectively, divided by average exchange rate.
(6) Source: Random Lengths Publications Inc.

Continuing Operations

The US Census Bureau reported privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.28 million units over the third quarter of 2019, a level which was higher by approximately 2% over the prior quarter and 4% over the third quarter of 2018. More encouragingly, single-family housing starts accounted for 70% of total third quarter 2019 US housing starts, which represented an increase in units of 6% compared to the prior quarter and 3% relative to the third quarter of 2018. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

Average benchmark lumber prices for WSPF and SYP remained relatively weak in the third quarter of 2019, although US housing starts improved modestly and further production curtailments were announced by several BC mills. Prices for the bell-weather WSPF #2 & Btr product, which averaged US$356 during the third quarter of 2019, improved by 7% compared to the previous quarter and declined by 26% from the third quarter of 2018.[1] Benchmark prices for SYP Westside averaged US$376 during

[1] Source: Random Lengths Publications Inc.

the third quarter of 2019 and reflected a modest improvement from the prior quarter and a decline of 20% from the third quarter of 2018.[2] Several industry analysts have attributed the lower SYP lumber prices in 2019 to a historically wet winter and spring which suppressed housing construction activity and lumber demand across the US South.

The US dollar averaged US$0.757 for each Canadian dollar during the third quarter of 2019, a level which represented a modest strengthening of the Canadian dollar over the previous quarter and slight weakening compared to the same quarter last year.[3] Canadian dollar-denominated benchmark WSPF prices, which averaged $471 in the third quarter of 2019, improved by 6% or $26 over the previous quarter and declined 25% or $159 from the third quarter of 2018.

In addition to the continuation of the weaker lumber price environment, our lumber segment operating results for the first nine months of 2019 were impacted by significantly lower operating rates at our BC and Arkansas mills due to changes in operating configuration and temporary and longer-term production curtailments as discussed under “Operating Rates at Our Mills”. Lumber production at our BC mills totalled approximately 26 million board feet during the third quarter of 2019, which represented an annualized operating rate of 19% compared to 35% in the previous quarter and 77% in the third quarter of 2018. Production at our US mills of approximately 68 million board feet represented a decline of 21% from the previous quarter and comprised 72% of our overall production. Production at our US mills represented an annualized operating rate of 50% in the third quarter of 2019, 63% in the previous quarter and 60% in the same quarter last year based on two-shift dimension lumber production capacity of 550 million board feet.

Shipments of Conifex produced lumber totaled 105 million board feet in the third quarter of 2019. Lumber shipments outpaced production by 11% in the current and previous quarters as shipments were continued during periods of production curtailments. Shipments of Conifex produced lumber declined by 30% from the previous quarter and by 44% from the third quarter of 2018.

Revenues from Conifex produced lumber were $48.1 million in the third quarter of 2019 and represented declines of 35% from the previous quarter and 59% from the third quarter of 2018. Compared to the prior quarter, lower revenues were mainly attributable to reductions in shipment volumes of Conifex produced lumber of 30% and in unit sales realizations of 7%. Compared to the third quarter of 2018, the lower revenues were primarily due to decreases in shipment volumes of 44% and in unit sales realization of 27%. Unit sales realizations were challenged in the third quarter of 2019 by unusually low prices for SYP decking products and shipments of a portion of the remaining inventories at our FSJ Mill and El Dorado mill at somewhat discounted prices.

We recorded modest wholesale lumber revenues and shipments in the third quarter of 2019 as wholesale lumber activity was largely suspended during the last two quarters. We also ceased provision of third party logistics services in October 2019, subsequent to quarter end. The main effect of these initiatives was a reduction of the working capital investment required to yield optimal operating results in these non-core business units. We do not anticipate any material impact on future overall operating results from this change.

Declines in revenues from wood chips and other residuals of 28% from the previous quarter and 48% from the third quarter of 2018 were due mostly to lower chip volumes at our BC and Arkansas mills and, to a lesser extent, lower unit chip prices on shipments from our BC mills compared to the third quarter of 2018.

Overall operating costs in the first nine months of 2019 were challenged by the lower operating rates at our BC and Arkansas mills and the additional costs associated with ramping up second shifts at both of

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[2] Source: Random Lengths Publications Inc.

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

our Arkansas mills in the first half of the year without the attendant benefit of higher productivity. The El Dorado and Glenwood mills were converted to single-shift operating configurations in June 2019. Operating hours were extended at the Glenwood mill in mid-August 2019. The change in operating format at our Glenwood mill has resulted in increased hourly productivity and reductions in log costs, overall operating costs and investment in working capital. Our Cross City mill continues to contribute positively to operating results although third quarter sales realizations were hampered by unusually low prices for SYP decking products.

Unit log costs increased by 13% over the previous quarter and 23% 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 El Dorado and Cross City mills were generally consistent with the comparative quarters. Unit log costs at our Glenwood mill improved by 6% due to a reduction in volumes purchased and the easing of wet weather conditions which constrained log supply and temporarily elevated log costs in the previous quarter.

We recorded positive inventory valuation adjustment of $0.5 million in the third quarter of 2019 compared to inventory write-downs of $0.5 million in the second quarter of 2019 and $1.8 million in the third quarter of 2018.

We expensed CV and AD duty deposits of $1.3 million in the third quarter of 2019, $2.5 million in the previous quarter and $6.3 million in the third quarter of 2018. The duty deposits were based on a combined rate of 20.23%.

We recorded a nominal gain on lumber derivative instruments in the third quarter of 2019 and loss of $0.2 million in the prior quarter and gain of $2.1 million in the third quarter of 2018.

The lumber segment recorded operating losses of $15.0 million in the third quarter of 2019 and $19.1 million in the previous quarter and operating income of $10.3 million in the third quarter of 2018. Compared to the previous quarter, lumber segment operating results were hampered by lower shipment volumes, operating rates and residuals revenues, and to a lesser extent, lower sales realizations and higher unit cash conversion costs. Compared to the third quarter of 2018, lumber segment operating results were challenged by significantly weaker lumber prices resulting in lower sales realizations, reduced shipment volumes, operating rates and residuals revenues, higher unit log and cash conversion costs and unfavorable variance in gains on lumber derivative contracts. These factors were partially offset by a lower duty deposit expense and a positive variance in inventory valuation adjustments.

Lumber segment adjusted EBITDA was negative $9.9 million in the third quarter of 2019 compared to negative $12.8 million in the previous quarter and positive $18.8 million in the third quarter of 2018. Lumber segment EBITDA was negative $28.8 million for the nine months ended September 30, 2019 and positive $43.5 million for the nine months ended September 30, 2018.

Bioenergy Segment

(millions of dollars, other than statistical information, unaudited)	**Q3 2019**	**Q2 2019**	**YTD 2019**	**Q3 2018**	**YTD 2018**
Electricity sales under EPA - GWh	53.1	47.2	155.9	54.7	156.7
Electricity revenues	5.1	4.4	17.8	6.2	18.8
EBITDA	2.7	1.5	8.9	3.5	9.5
Amortization	0.9	0.9	3.5	0.7	3.3
Operating income	1.8	0.6	5.4	2.8	6.2

Our power generation plant at Mackenzie, BC (the “Mackenzie Power Plant”), which resumed operations in September 2019 after the conclusion of the dispatch period, sold 53.1 gigawatt hours of electricity under our Electricity Purchase Agreement (“EPA”) with BC Hydro and Power Authority (“BC Hydro”) in the third quarter of 2019, representing approximately 97% of targeted operating rates. Higher billable gigawatt hours in the third quarter of 2019 led to an increase in electricity revenues of 16% over the prior quarter when the Mackenzie Power Plant took planned major maintenance shutdown days. Electricity revenues decreased by 18% compared to the same quarter last year due primarily to seasonal variations in spring freshet pricing.

Cash operating costs improved by 17% from the previous quarter and 11% from the third quarter of 2018. Bioenergy segment EBITDA was $8.9 million for the first nine months of 2019 and $9.5 million for 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 the second quarter of 2019, BC Hydro issued dispatch orders with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of approximately 114 days, encompassing the early May to August 31, 2019 period. In 2018, the Mackenzie Power Plant, among others, was dispatched for a period of 112 days, encompassing the mid-May to early September 2018 period. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro (the “LDA”). 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

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $1.8 million in the third quarter of 2019 and $2.0 million in the previous quarter and the third quarter of 2018. Corporate costs for the first nine months of 2019 were $5.6 million compared to $5.3 million in the same period last year. The year-over-year increase was mostly attributable to costs related to the expansion of our US operations.

Interest Expense and Finance Costs

Finance costs related to debt issuance are amortized over the remaining term of the respective credit facility.

Interest and finance costs totaled $7.1 million in the third quarter of 2019, $7.4 million in the second quarter of 2019 and $6.3 million in the third quarter of 2018. Year-to-date interest and finance costs were $20.7 million for 2019 compared to $10.2 million for 2018.

Compared to the previous year, year-to-date interest expense in 2019 reflected higher interest rates resulting from recent amendments to our Credit Facility, a significant increase in average borrowings, and to a lesser extent, the expensing of borrowing costs related to the development of our El Dorado mill which was capitalized in the first quarter of 2018 and interest expense on leases related to the adoption of IFRS 16, *Leases,* on January 1, 2019 (see “Changes in Accounting”). The year-over-year increase in finance costs reflected amortization of fees related to the completion of the Credit Facility (in July 2018) and subsequent amendments and the refinancing of the term loan for our subsidiary, Conifex Power Limited Partnership (“Conifex Power”) in October 2018.

Loss on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business. 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. We recorded a nominal gain on lumber derivative instruments in the third quarter of 2019 and loss of $0.2 million in the prior quarter and gain of $2.1 million in the third quarter of 2018.

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 US dollar-denominated cash, working capital balances and revolving loan of Canadian operations to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The exchange rate for one Canadian dollar was US$0.755 at September 30, 2019, US$0.764 at June 30, 2019, and US$0.772 at September 30, 2018.[4] We recorded foreign exchange translation losses of $0.2 million in the third quarter of 2019 and $0.3 million in the third quarter of 2018 and a gain of $0.1 million in the second quarter of 2019.

We recognized a foreign exchange loss of $2.4 million in the third quarter of 2019 and gains of $4.4 million in the previous quarter and $2.5 million in the third quarter of 2018 on our US dollar term loan under the Credit Facility held by our Canadian entities due to the variability in exchange rates at each period end.

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 an after-tax gain of $4.5 million in the third quarter of 2019 and after-tax losses of $7.6 million in the previous quarter and $5.4 million in the third quarter of 2018 to other comprehensive income.

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. The Company recorded a deferred income tax recovery of $9.7 million in the first nine months of 2019 and a deferred income tax expense of $5.2 million over the same period of last year. As at September 30, 2019, the Company has recognized deferred income tax assets of $11.6 million.

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

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Company's financial position as at the end of each of the comparative quarters:

(millions of dollars, unaudited)	Q3 2019	Q4 2018	Q3 2018
Cash	2.4	16.3	17.6
Cash - restricted	6.3	8.6	8.0
Operating working capital (1)	14.5	86.0	104.6
Operating loans	(11.4)	(12.0)	(1.6)
Current portion of revolver and long-term debt	(146.3)	(34.4)	(16.9)
Assets held for sale (2)	25.6	0.1	-
Liabilities held for sale (2)	(3.4)	-	-
Net current assets	(112.3)	65.5	111.7
Long-term assets - goodwill	158.0	163.8	161.5
Long-term assets related to Mackenzie Power Plant	108.5	111.4	112.9
Long-term assets - lumber segment and corporate	272.6	305.7	293.3
	426.8	646.4	679.4
Non-interest bearing long-term liabilities	16.8	20.7	28.5
Long-term debt - Conifex Power term loan	61.5	63.4	59.3
Revolving credit facility	-	23.7	35.9
Long-term debt - other	56.8	198.5	207.7
Shareholders' equity	291.7	340.1	348.0
	426.8	646.4	679.4
Ratio of current assets to current liabilities	0.5	1.7	1.7
Net debt to capitalization	48%	47%	46%
Net debt to capitalization (3)	42%	42%	41%

(1) Operating working capital is calculated as the aggregate of trade and other receivables, prepaid expenses and deposits, and inventories less the aggregate of trade payables, accrued liabilities and other payables, the current portion of reforestation obligations and employee liabilities.
(2) Assets and liabilities related to the sale of the Fort St. James Mill have been reclassified as held for sale as at September 30, 2019. See "Recent Developments – Completion of Sale of Fort St. James Sawmill" above for additional information
(3) Excluding borrowings by Conifex Power, which are non-recourse to our other operations.

Operating working capital was reduced by $71.5 million over the first nine months of 2019 due primarily to the lower operating rates at our Mackenzie Mill and Arkansas mills and the sales of the FSJ Mill and Lignum. Overall debt related to the lumber segment was $211.4 million at September 30, 2019 compared to $265.7 million at December 31, 2018. The net reduction of $54.3 million in lumber segment debt comprised repayments of the revolving loan under the Credit Facility of $30.9 million and the term loan under the Credit Facility and capital leases of $18.7 million, foreign exchange revaluation of US dollar denominated debt of $6.4 million due to the strengthening of Canadian currency, and an increase in deferred financing fees of $6.8 million, partially offset by the addition of leases previously classified as operating leases of $8.5 million due to the adoption of IFRS 16, *Leases*, on January 1, 2019 (see "Changes in Accounting Policy"). An increase in the current portion of lumber segment debt of $111.3 million in the first nine months of 2019 was related primarily to the reclassification of a large portion of our long-term lumber segment debt as a result of recent amendments to the Credit Facility.

The reduction in shareholders' equity of $48.4 million over the first nine months of 2019 was mostly comprised of a year-to-date net loss of $37.6 million and a non-cash foreign exchange translation of foreign operations loss of $11.5 million that was recorded as other comprehensive loss.

The ratio of current assets to current liabilities was 0.5:1 at September 30, 2019 compared to 1.7:1 at December 31, 2018 and at September 30, 2018. The main influences on the current ratio over the first nine months of 2019 were reductions in cash and operating working capital totaling $88.0 million, the reclassification of long-term assets and liabilities related to the sale of the FSJ Mill as current period assets and liabilities, and most significantly, the reclassification of a large portion of long-term lumber segment debt as current as a result of recent amendments to the Credit Facility. The current portion of long-term debt increased by $111.3 million over the first nine months of 2019.

We manage capital with the objective of maintaining a strong balance sheet to adequately maintain capital resources to support our operations, sustain future development and facilitate access to capital markets at competitive rates. Our short-term priorities are to reduce debt and enhance liquidity by continuing to focus on operational improvements and undertaking other initiatives. See “Liquidity and Credit Facility Update” above and “Liquidity and Capital Resources” below. 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, 2019 decreased by $39.8 million to $267.2 million from $307.0 million at December 31, 2018. The net debt to capitalization ratio was approximately 48% at September 30, 2019 and December 31, 2018 and 46% at September 30, 2018. Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 42% at September 30, 2019 and December 31, 2018 and 41% at September 30, 2018.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars, unaudited)	**Q3 2019**	**Q2 2019**	**YTD 2019**	**Q3 2018**	**YTD 2018**
Cash generated from (used in)					
Operating activities	17.2	24.1	47.8	2.9	41.0
Financing activities	(23.0)	(38.7)	(76.0)	216.8	203.4
Investing activities	(0.6)	12.1	12.0	(227.0)	(244.8)
Increase (decrease) in cash	(6.4)	(2.5)	(16.2)	(7.3)	(0.4)

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 payables 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 used cash in operations before working capital changes of $9.5 million in the first nine months of 2019 compared to cash generation of $46.0 million in the first nine months of 2018. Changes in non-cash working capital provided cash of $57.3 million in the first nine months of 2019 and consumed cash of $5.0 million in the same period of last year. The reduction in non-cash working capital during the first nine months of 2019 was primarily due to decreases in accounts receivables of $12.4 million, prepaid timber harvesting rights and other prepaid expenses of $8.3 million and inventories of $27.2 million and an increase in accounts payable and accrued liabilities of $10.5 million.

Financing Activities
Financing activities consumed net cash of $76.0 million in the first nine months of 2019. Cash outflows included net repayments of our revolving Credit Facility of $30.9 million and term loan and capital leases of $20.1 million and the payment of finance expenses of $25.0 million.

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 Credit Facility and net proceeds from the public offering of our common shares of $60.7 million. Cash outflows included the repayment and retirement of our then-outstanding 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.

Investing Activities
Investing activities provided cash of $12.0 million in the first nine months of 2019 and included $2.7 million spent on capital improvements in the lumber segment and $0.7 million at the Mackenzie Power Plant, which was more than offset by net proceeds of $13.6 million from the completion of the sale of Lignum, other asset disposals and an insurance claim settlement. Lumber segment capital expenditures were primarily related to maintenance of business projects.

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 and Glenwood mills, 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.

Discontinued Operations
The Summary of Cash Flow table includes net decrease in cash from discontinued operations of $2.3 million in the first nine months of 2019 and net increase in cash of $2.0 million in the first nine months of 2018.

Credit Facility

Credit Facility Agreement
In July 2018, we completed a syndicated five-year US$225 million senior secured credit facility led by a leading US commercial bank, along with a syndicate of other lenders (the “Credit Facility”). The Credit Facility consists of a US$165 million term loan facility and a US$60 million revolving credit facility. The Credit Facility is secured by substantially all of our lumber segment assets. In addition to financing a part of the acquisition of the Cross City and Glenwood mills, a portion of the Credit Facility was utilized to repay and retire our then-outstanding revolving credit facility.

The term loan under the Credit Facility is subject to quarterly scheduled repayments and amortized at 5% of the principal amount over the first two years, 7.5% in year three, and 10% in years four and five. Additional annual principal repayments commence in the second quarter of 2020 and are based on 50% of excess cash flow from the prior fiscal year.

Availability under the revolving Credit Facility is determined by a borrowing base calculation tied to eligible receivables and inventory, net of specific reserves. Borrowings can be drawn in Canadian or US dollars.

Credit Facility Amendments

We previously amended the Credit Facility to eliminate the measurement of financial covenants until March 31, 2020; increase the applicable margin rate depending on the maximum total leverage ratio; revise availability under the revolving Credit Facility; and reduce the Revolving Credit Facility. The amendments also provide for accelerated repayment of the term loan from scheduled repayments and an increase in annual non-scheduled principal repayments commencing in the second quarter of 2020. Additionally, the term of the Credit Facility was revised to mature on June 30, 2021.

In the third quarter of 2019, we amended the Credit Facility to, among other things, set certain milestones to provide for accelerated repayment of the term loan. Repayment amounts due within the next 12 months are included in the current portion of long-term debt on our consolidated balance sheet at September 30, 2019.

Subsequent to quarter end, on October 1, 2019, we amended the Credit Facility to, among other things, provide additional short-term liquidity and waive certain covenants and milestones. Pursuant to the terms of the amendment, we are continuing to work collaboratively with our lenders to complete an acceptable divestment and restructuring plan on or before November 25, 2019, which will likely include further asset divestitures. While we currently expect to settle an acceptable plan with our lenders, there can be no assurance of the same. If we are unable to do so, unless the period is extended or the matter waived by our lenders, the same would be an event of default under our Credit Facility and unless waived, would result in our being required to seek relief under applicable debtor relief laws.

While we were in compliance with our debt covenants under the Credit Facility for the period ended September 30, 2019, we continue to work collaboratively with lenders and intend to present and implement an acceptable divestment and restructuring plan. However, there can be no assurance that it will result in or we will be able to provide an acceptable plan as required by the amendment.

Liquidity

Our principal sources of funds are cash on hand, cash flow from operations, and our 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 Facility. At September 30, 2019, we had total liquidity of $8.0 million, compared to $17.8 million at December 31, 2018 and $39.0 million at September 30, 2018. Liquidity at September 30, 2019 was comprised of unrestricted cash of $2.4 million and unused availability under our revolving Credit Facility of $5.6 million. Subsequent to quarter end, liquidity was enhanced from a portion of the net proceeds from the sale of the FSJ Mill. Availability under the Credit Facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, net of specific reserves.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the US in April 2017. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits, to the extent the additional costs on US destined shipments are not mitigated by higher lumber prices.

The decrease in liquidity in the first nine months of 2019 and the closing quarter of 2018 was due primarily to a steep and generally sustained decline in lumber prices, the combined impact of duty deposits on US shipments coupled with rapidly escalating log costs at our BC mills, and increased debt levels to fund our strategic expansion in the US South. We have taken a number of actions to reduce cash outflows at our BC and Arkansas mills, and continue to actively manage debt and working capital levels.

In response to market conditions characterized by lower lumber prices, continued imposition of softwood lumber duties, and elevated log costs in the northern interior of BC, we implemented various temporary changes in operating formats, and temporary and longer term production curtailments at our BC and

Arkansas mills during the first nine months of 2019 as described in "Operating Rates at Our Mills" above. The changes were primarily implemented to optimize cash flows and reduce investments in working capital.

We completed the sale of Lignum on April 1, 2019 and utilized the proceeds of approximately US$11.5 million to partially repay a portion of the revolving Credit Facility. In addition, we suspended wholesale lumber activity in the third quarter of 2019 and provision of third party logistics services subsequent to quarter end. These initiatives have reduced working capital requirements without imposing any expected material impact on our future operating results.

Liquidity was further enhanced in the third quarter of 2019 with increased availability under the Credit Facility, the receipt of proceeds from the Duties Sales and the release of $6.4 million of cash that was previously restricted. Subsequent to quarter end, we completed the sale of the FSJ Mill for total consideration of $38.6 million which was utilized to reduce debt and provide additional liquidity. We have also worked closely with our principal lenders and renegotiated key covenants under our Credit Facility. See "Liquidity and Credit Facility Update" and "Credit Facility" above.

We are implementing other options to help increase liquidity and meet scheduled commitments. This includes minimizing discretionary capital expenditures, managing controllable expenses and continuing to optimize working capital levels.

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 present expectations for future periods in light of the existing economic environment, coupled with the actions already taken and the alternatives available to us, we believe that cash flow from operations, available cash and the expected net proceeds of assets dispositions, together with available borrowings under our revolving Credit Facility, will be adequate to meet our obligations through 2019. We expect our Cross City mill to continue to provide a reliable source of cash flow.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements as at September 30, 2019 were comprised of standby letters of credit totalling $7.2 million posted by Conifex Power. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the third quarter of 2019 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber prices)	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Sales - lumber segment	60.1	91.3	125.5	128.2	151.0	133.6	85.8	97.3
Sales - electricity	5.1	4.4	8.2	8.0	6.1	5.1	7.5	8.2
Operating income	(15.0)	(20.5)	(12.4)	(15.3)	11.1	14.7	6.3	14.2
Net income (loss) from continuing operations	(16.7)	(8.3)	(12.0)	(24.0)	6.0	7.7	1.6	8.0
Net income (loss) from discontinued operations	0.1	(0.8)	0.2	1.0	(1.7)	1.4	1.0	-
Net income (loss)	(16.6)	(9.1)	(11.9)	(23.0)	4.3	9.2	2.5	8.0
Basic and diluted earnings (loss) per share								
Continuing operations	(0.35)	(0.18)	(0.25)	(0.51)	0.13	0.30	0.06	0.30
Discontinued operations	-	(0.01)	-	0.02	(0.04)	0.05	0.04	-
Total basic earnings (loss) per share	(0.35)	(0.19)	(0.25)	(0.49)	0.09	0.35	0.10	0.30
Adjusted EBITDA - continuing operations (1)	(9.2)	(13.2)	(2.7)	(7.2)	17.8	19.2	8.2	17.4
Shares outstanding - weighted average (millions)	46.9	46.6	46.6	46.6	45.3	26.5	26.4	26.4
Statistics (in millions, other than exchange rate and lumber prices)								
Production - WSPF lumber (MMfbm)	26.0	47.6	73.5	93.5	104.0	132.4	123.7	129.9
Production - SYP lumber (MMfbm)	68.4	87.1	104.5	95.1	82.6	25.0	-	-
Shipments - WSPF lumber (MMfbm)	34.8	60.4	78.7	99.9	111.8	133.8	112.7	138.2
Shipments - SYP lumber (MMfbm)	70.2	88.8	105.3	94.7	75.8	23.8	-	-
Shipments - wholesale lumber (MMfbm)	0.3	5.4	16.6	12.8	15.5	15.1	7.4	10.0
Electricity production - GWh	53.1	47.2	55.6	54.6	54.7	51.5	50.5	55.2
Average exchange rate - US$/Cdn$ (2)	0.757	0.748	0.752	0.757	0.765	0.775	0.791	0.787
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$356	$333	$372	$327	$482	$598	$514	$464
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(4)	$471	$445	$495	$432	$630	$772	$650	$590
Average SYP 2x4 #2&Btr lumber price (US$) (5)	$376	$371	$402	$419	$469	$574	$540	$438
Average SYP 2x4 #2&Btr lumber price (Cdn$)(4)	$497	$497	$534	$553	$613	$741	$683	$557
Reconciliation of Adjusted EBITDA to Net Income (Loss)								
Net income (loss) from continuing operations	(16.7)	(8.3)	(12.0)	(24.0)	6.0	7.7	1.6	8.0
Add: Finance costs	7.1	7.4	6.1	6.5	6.3	2.4	1.5	1.5
Amortization	6.1	7.4	9.2	9.2	7.0	5.5	4.4	4.8
Deferred income tax expense	(5.5)	(2.7)	(1.5)	(10.2)	1.0	3.6	0.7	3.1
EBITDA from continuing operations (6)	(9.0)	3.8	1.8	(18.5)	20.3	19.2	8.2	17.4
Add: Foreign exchange (gain) loss on long-term debt	2.4	(4.4)	(4.5)	11.3	(2.5)	-	-	-
Gain on sale of right to duty refunds	(2.6)	(12.6)	-	-	-	-	-	-
Adjusted EBITDA from continuing operations	(9.2)	(13.2)	(2.7)	(7.2)	17.8	19.2	8.2	17.4

(1) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, and gain on the Duties Sales.
(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.
(6) The Company's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

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.

The impact on net income of foreign exchange translation gains or losses on US dollar-denominated long-term debt became a significant factor subsequent to the completion in July 2018 of our Credit Facility agreement which is primarily denominated in US dollars.

Discontinued Operations

The sale of Lignum had a significant impact on previously reported wholesale lumber revenues and shipments while the impact on operating income, net income and adjusted EBITDA was less pronounced. The variability in quarterly net income and loss in 2018 generally reflected fluctuations in lumber prices, timing of related inventory valuation adjustments, and largely unrealized foreign exchange translation gains and losses.

OUTLOOK

We expect the reduction in lumber shipments to follow from the recent announcements of production curtailments from a number of BC lumber producers, coupled with more normal demand will result in better balanced lumber markets and higher prices. Provided housing and lumber demand remain relatively stable, we expect lumber prices to gradually increase through the remainder of this year and 2020, and for pricing to stabilize in the mid-term at levels that are reasonably high by historic standards. We continue to believe the factors that shape the mid-term demand for lumber are solid.

We expect a quarter-over-quarter increase in lumber production of approximately 10% in the fourth quarter of 2019, assuming continuation of the present operating configurations at our Cross City, Glenwood and Mackenzie mills. We expect lumber segment costs to improve commencing in November 2019 due to the elimination of costs related to our FSJ Mill and reduction in costs related to our El Dorado mill. Accordingly, we anticipate a material improvement in lumber segment EBITDA in the fourth quarter of 2019 as a result of increased production, reduction in costs and a modest improvement in sales price realizations. We also expect a seasonally stronger EBITDA contribution from our bioenergy segment in the closing quarter of 2019.

We have made considerable progress reducing our borrowings under the Credit Facility and improving our lumber segment competitiveness. We continue to work collaboratively with our senior lenders and intend to effect an acceptable divesture and restructuring plan. We expect that such plan will forecast that cash flow from operations, available cash and the expected net proceeds of assets dispositions, together with available borrowings under our revolving Credit Facility, will be adequate to meet our obligations through the next 12 months. See “Liquidity and Credit Facility Update” and “Credit Facility” above.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company’s critical accounting estimates during the quarter ended September 30, 2019. Conifex’s critical accounting estimates are described in its MD&A for the year ended December 31, 2018, filed under the Company’s profile on SEDAR at www.sedar.com.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2019, the Company has adopted IFRS 16, *Leases*, using the modified retrospective method. The new standard replaces IAS 17, *Leases*, and the related interpretations. Under this approach, the Company is required to recognize a right-of-use (“ROU”) asset for leases that were previously classified as operating, and a related lease liability for the obligation to make the lease payments. The ROU asset represents the Company’s right to use the underlying asset over the term of the lease.
At the inception of a lease, the ROU assets will be initially measured at cost, which is the initial lease obligation amount plus any initial direct costs, and less any lease incentives received. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

The lease liability is initially measured based on the present value of the future lease payments discounted using the Company’s incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize ROU assets and lease obligations for leases with a term of twelve months or less, and leases for low-value assets. Lease payments associated with these leases are recognized to the condensed consolidated statement of net income as payments are made over the lease term.

On initial adoption of the new standard, the Company recognized $8.5 million in ROU assets under property, plant and equipment on the condensed consolidated balance sheet and an additional $8.5 million of liabilities in connection with the leases for office spaces, mobile and other equipment.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company’s annual information form dated March 28, 2019, and other filings with the Canadian regulatory authorities available on SEDAR at www.sedar.com.

OUTSTANDING SECURITIES

As at November 14, 2019, the Company had 46,923,757 issued and outstanding common shares, 100,000 options granted, 1,907,089 long-term incentive plan awards and 3,500,000 warrants.

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INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2019, 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.