CONIFEX

CONIFEX TIMBER INC.
FIRST QUARTER 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 18, 2012

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc. (the "Company") for the first quarter ended March 31, 2012 relative to the quarters ended December 31, 2011 and March 31, 2011, the Company's financial condition and future prospects. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Conifex and accompanying notes for the quarters ended March 31, 2012 and 2011, as well as the 2011 annual MD&A and the December 31, 2011 audited consolidated financial statements and notes thereon which are filed on SEDAR at www.sedar.com.*

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

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

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

FORWARD-LOOKING STATEMENTS

Certain statements in this interim MD&A may constitute "forward-looking statements" in accordance with applicable Canadian securities laws. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. When used in this interim MD&A, words such as "estimates", "budget", "scheduled", "expects", "plans", "anticipates", "projects", "will", "intends", "believes", "should", "could", "may" and other similar terminology are intended to identify such forward-looking statements. Forward-looking statements reflect the current expectations and beliefs of the Company's management. Because forward-looking statements involve known and unknown risks, uncertainties and other factors, actual results, performance or achievements of the Company or industry may be materially different from those implied by such forward-looking statements. Forward-looking statements involve significant uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, *including those matters described under "Risks and Uncertainties". Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.*

SIGNIFICANT DEVELOPMENTS

Significant developments during the first quarter of 2012 included the completion of $28.5 million of private placements of common shares and the inclusion of the operating results of two newly acquired subsidiaries.

Completion of private placements

On February 16, 2012, the Company completed a brokered private placement (the "Brokered Placement") of 3,860,700 common shares at a price of $7.00 per share for gross cash proceeds of approximately $27.0 million.

On the same date, the Company also completed a non-brokered private placement (the "Non-Brokered Placement" and together with the Brokered Placement, the "Private Placements") of 214,286 common shares at a price of $7.00 per share for net proceeds of approximately $1.5 million.

The Company intends to use the net proceeds from the Private Placements to fund capital expenditures and for general corporate purposes.

CFMI and Navcor operating results included in lumber segment results

On December 31, 2011, the Company completed its acquisition of a commodity lumber marketing business and a transportation and logistics business. The acquired companies had previously provided these services to Conifex on a contract basis. The Company now markets and distributes its lumber products through its wholly-owned subsidiaries, Conifex Fibre Marketing Inc. ("CFMI") and Navcor Transportation Services Inc. ("Navcor"). Both CFMI and Navcor are also expected to continue to generate additional revenue from third party transactions.

Benefits that the Company expects to realize from the acquisition include:

- The ability to continue to service and maintain long-term relationships with customers in key markets with experienced personnel who are familiar with Conifex's products
- The ability to retain superior logistical capabilities which provides the flexibility to shift between the three main softwood lumber import markets in the world
- The potential to earn premiums on commodity lumber, premium prices on shipments and industry leading mill net prices
- The ability to earn incremental revenue from wholesale lumber transactions and provision of third party logistics services
- The reduction of marketing and distribution costs compared to the cost of outsourcing these functions

CFMI's and Navcor's operating results are included in the lumber segment results commencing in the first quarter of 2012.

SUMMARY OF OPERATING RESULTS AND FINANCIAL POSITION

CONSOLIDATED OPERATING RESULTS

(millions of dollars except share and per share amounts)	Q1 2012	Q4 2011	Q1 2011
Sales -Lumber	39.4	34.0	18.5
- By-products	4.5	4.7	2.6
- Freight services	3.5	-	-
Total Sales	47.4	38.7	21.1
Operating loss	(6.2)	(6.8)	(3.8)
Net loss	(6.5)	(7.5)	(3.6)
Net loss per share - basic and diluted	(0.38)	(0.49)	(0.24)
EBITDA	(3.8)	(5.2)	(1.3)
Shares outstanding - end of period (millions)	19.4	15.2	15.2
Shares outstanding - weighted average (millions)	17.3	15.2	15.2
Statistics			
Lumber shipments - Conifex product (MMfbm)	114.8	123.6	62.5
Lumber production (MMfbm)	111.1	94.9	63.5
Average exchange rate - US$/Cdn$ (1)	0.999	0.977	1.014
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 267	$ 239	$ 297
Average WSPF 2x4 #2&Btr lumber price (Cdn$)	$ 267	$ 245	$ 293
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$244 - $289	$222 - $261	$287 - $321

(1) Source: Bank of Canada website www.bankofcanada.ca
(2) Source: Random Lengths Publications Inc.

Reconciliation of EBITDA to Net Loss

(millions of dollars)	Q1 2012	Q4 2011	Q1 2011
Net loss	(6.5)	(7.5)	(3.6)
Add: Interest expense	0.5	0.3	-
Depreciation and amortization	1.8	1.6	1.4
Deferred union payroll liability	-	(0.1)	0.3
Share based compensation	0.1	0.2	0.3
Accretion of convertible debentures	0.3	0.3	0.3
EBITDA*	(3.8)	(5.2)	(1.3)

*May not total exactly due to rounding.

Overview

For the quarter ended March 31, 2012, the Company recorded a net loss of $6.5 million or $0.38 per share and negative EBITDA of $3.8 million on sales of $47.4 million. Negative EBITDA was comprised of $2.7 million from the lumber segment, $0.3 million from the bioenergy segment and $0.8 million from corporate costs and other items. The EBITDA improvement of $1.4 million and reduction of net loss by $1.0 million over the previous quarter was attributable to the lumber segment as corporate costs and costs related to the bioenergy segment remained flat. Net loss for the first quarter of 2011 was $3.6 million and negative EBITDA was $1.3 million.

Included in first quarter 2012 results are wholesale lumber shipments of 18.8 million board feet and revenue from services and freight products provided to third parties of $3.5 million.

At March 31, 2012, the Company had $19.1 million cash on hand, an increase of $6.4 million from December 31, 2011. During the quarter, the Company received net proceeds from the Private Placements of $26.9 million. Lumber segment working capital increased by $12.8 million with most of the increase attributable to the seasonal build-up of log inventories and working capital required to support the newly acquired CFMI and Navcor businesses. The Company ended the first quarter of 2012 with net debt of $7.5 million and net debt to capitalization ratio of 7%.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Operating Results by Business Segment

(millions of dollars)	Q1 2012	Q4 2011	Q1 2011
Revenue			
Lumber	47.4	38.7	21.1
Bioenergy	-	-	-
	47.4	38.7	21.1
Net Loss			
Lumber	(4.6)	(5.8)	(2.2)
Bioenergy	(0.3)	(0.2)	(0.2)
Corporate costs and other items	(1.6)	(1.5)	(1.2)
	(6.5)	(7.5)	(3.6)
EBITDA			
Lumber	(2.7)	(4.1)	(0.3)
Bioenergy	(0.3)	(0.2)	(0.2)
Corporate costs and other items	(0.8)	(0.9)	(0.8)
	(3.8)	(5.2)	(1.3)

Lumber Segment

Overview

The lumber price for the bellwether WSPF 2x4 #2 & Btr (“WSPF”) averaged US$267 during the first quarter of 2012 compared to US$239 during the previous quarter.[1] The improvement of almost 12% was partially offset by a 2% strengthening of the Canadian dollar over the U.S. dollar.[2] Current quarter WSPF prices averaged 9% lower than the first quarter of 2011, a combination of a slightly weakened Canadian dollar in the current quarter and strength in the headline number during the first quarter of 2011. In the recent quarter, price increases were more broadly distributed amongst other dimensions unlike the first quarter of 2011 when the increase in the WSPF price was largely confined to 2x4.

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

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

Prices for low grade lumber during the current quarter continued to exhibit the same degree of weakness over the first nine weeks as in the previous quarter before strengthening considerably over the closing four weeks (Source: Random Lengths Publications Inc.). An improvement in mill net realization congruent with the increase in quarter over quarter WSPF price did not materialize as the Company worked off an abnormally high proportion of low grade inventory and lower priced export order files.

The Company continued to ship heavily to export markets, particularly China, during the first quarter of 2012 with approximately 62% of total shipment volume going to these markets compared to 53% in the previous quarter and 44% in the first quarter of 2011. The Company expects to see a slight reversal of this trend in the second quarter of 2012 in response to the appreciation of prices and improvement in mill net returns in the North American market late in the first quarter.

Operating rates were 60% for the first quarter of 2012, 51% for the fourth quarter of 2011 and 34% for the first quarter of 2011. The operating results of CFMI and Navcor are included in those of the lumber segment effective the first quarter of 2012.

The export tax remained at 15% throughout the comparative periods.

The Company recorded a net loss of $4.6 million in its lumber segment on sales of $47.4 million for the first quarter of 2012 compared to a net loss of $5.8 million on sales of $38.7 million for the previous quarter and a net loss of $2.2 million on sales of $21.1 million for the same quarter last year. EBITDA in this segment was negative $2.7 million for the first quarter of 2012 compared to negative $4.1 million for the previous quarter and negative $0.3 million for the first quarter of 2011.

First quarter 2012 lumber segment EBITDA increased by $1.4 million over the fourth quarter of 2011. The improved outcome was the result of a reduction in cash conversion and selling, general and administrative ("SG&A") costs and increased profit from lumber derivatives. Log costs were neutral while a gain in unit mill net realization was somewhat offset by a decline in unit residual prices.

Lumber segment EBITDA for the first quarter of 2012 was $2.4 million lower than the first quarter of 2011. The current quarter improvement in unit cash conversion costs and SG&A expenses was offset by increased log costs, change in inventory valuation adjustment, a slight decline in residual prices and a more pronounced decline in mill net realizations.

<u>Sales</u>
Total lumber shipments during the first quarter of 2012, including wholesale lumber shipments of 18.8 million board feet, totalled 133.6 million board feet. Shipments of Conifex produced lumber declined by 7% over the previous quarter but improved by over 80% over the same quarter a year ago when both mills were operating on a one-shift basis.

Gross revenues from lumber shipments totalled $39.4 million, an increase of 16% over the fourth quarter of 2011. Approximately one-half of the increase was attributable to higher shipment volumes and the balance to increased unit sales realization. The 113% increase in gross lumber revenues over the first quarter of 2011 was attributable to increased volumes as unit sales realizations remained relatively flat despite the quarter over quarter decline in the benchmark price.

Mill net realization during the first quarter of 2012 declined by approximately 13% compared to the first quarter of 2011 and the benchmark price declined by 9%. The departure from expected trend was due to the combination of higher proportion of low grade lumber shipments and weakness in low grade prices during the current quarter.

Per unit mill net realization during the first quarter of 2012 increased by 2.3% over the previous quarter, a gain which is not reflective of the 10% increase in quarter over quarter benchmark prices expressed in Canadian dollars. The lower than expected mill net realization was the result of an atypical shipment profile that favored a high proportion of lower grade lumber at the same time that prices for low grade lumber significantly weakened.

The poor quality logs processed at the Mackenzie mill during the fourth quarter of 2011 and early in the first quarter of 2012 resulted in the production of an abnormally high proportion of low grade lumber and low proportion of premium grade lumber. A portion of the lower grade products remained in inventory at the end of the previous quarter and shipped to export markets during the first quarter. The diversion of sales to the U.S. market from export markets to take advantage of the price recovery late in the first quarter also increased the volume of low grade lumber invoiced this quarter.

The Company also shipped an unusually low volume of its highest grade of lumber due to the poorer outturns as noted and to build inventory in anticipation of robust second quarter volume commitments to Japan. Had first quarter shipment profiles matched production profiles, the Company estimates it would have achieved an additional 5% increase in per unit mill net realization.

The table below compares the average quarterly prices for 2x4 #2 and #3, and 2x6 #2 and #3 and the change in the price difference between these grades for each dimension. The table highlights the significant price gap that developed between #2 and #3 products during the fourth quarter of 2011 and the first nine weeks of the current quarter. The four weeks following this period show a return to price spreads more consistent with those in the first three quarters of 2011.

Comparison of average prices between 2x4 #2 & #3 and 2x6 #2 & #3 products

		2x4 #2	2x4 #3	Difference	2x6#2	2x6 #3	Difference
2011	Quarter 1	$ 296	$ 265	$ 31	$ 273	$ 209	$ 64
2011	Quarter 2	$ 240	$ 218	$ 22	$ 235	$ 197	$ 38
2011	Quarter 3	$ 246	$ 217	$ 29	$ 260	$ 171	$ 89
2011	Quarter 4	$ 239	$ 165	$ 74	$ 251	$ 135	$ 116
2012	Quarter 1 - first 9 weeks	$ 261	$ 187	$ 74	$ 263	$ 147	$ 116
2012	Quarter 1 - last 4 weeks	$ 281	$ 255	$ 26	$ 284	$ 213	$ 71

All prices in USD as published in Random Length Publications Inc. each Friday. Each quarter consists of 13 weeks.

Factors such as improved grade outturns from the installation of an automated grading system and the processing of a more typical log profile at Mackenzie, anticipated reduction in the export tax rate, increased production and shipments of premium grade products, and the benefit of strengthening prices in most dimensions and grades are expected to contribute to an improvement in mill net realization in the second quarter of 2012.

The table below shows the percentage of net lumber revenue earned from and volume shipped to each geographic market.

	Q1 2012	Q4 2011	Q1 2011
By Revenue (net of freight)			
Canada	15%	20%	23%
USA	25%	26%	34%
Japan	4%	13%	14%
China and other	56%	41%	29%
	100%	100%	100%
By Shipment Volume			
Canada	15%	21%	23%
USA	23%	26%	33%
Japan	3%	9%	11%
China and other	59%	44%	33%
	100%	100%	100%

The Chinese market remained the largest single market for our lumber products throughout the fourth quarter of 2011 and the first quarter of 2012. The market has evolved to include demand for all grades of lumber including premium products. The proportion of shipments to the U.S. market was higher during the first quarter of 2011 than the comparative periods in response to the strength of North American demand and prices. During the second quarter of 2012, the Company expects to repeat this pattern if the period-end strength in North American markets is sustained. The Company also expects increased shipments to Japan as a result of stronger demand and higher production of premium products.

Revenue from chips and other residuals in the first quarter of 2012 totalled $4.5 million and represented approximately 9% of total revenue. Increased revenue from higher shipment volumes over the prior quarter was offset by a 13% decline in unit price. Current quarter unit prices for residual chips, which are related to fluctuations in NBSK pulp prices, declined by 4.5% compared to the first quarter of 2011.

Revenue from the provision of freight and logistics services during the first quarter of 2012 totalled $3.5 million and represented approximately 7% of total revenue.

Production and Operations

Operating rates were 60% for the first quarter of 2012, 51% for the fourth quarter of 2011 and 34% for the first quarter of 2011. Operating rates are calculated based on production volumes during the period and total annual production capacity of 745 million board feet.

Lumber production totalled 111.1 million board feet in the first quarter of 2012 compared to 94.9 million board feet during the previous quarter, an increase of 17%. Productivity in the previous quarter was hampered by the change in the operating format at the Fort St. James mill, poor log quality at Mackenzie and planned seasonal shutdowns at both locations.

Logs costs were flat quarter over quarter as a 3% improvement in lumber recovery was offset by a similar increase in per unit log costs. The increased operating rate led to a 7% improvement in unit cash conversion costs during the current quarter. The 14% decline in per unit SG&A

costs attributable to the lumber segment is due to the increased operating rate and lower marketing costs.

Lumber production during the first quarter of 2012 improved by 75% compared to the first quarter of 2011 during which both mills were operating on a one-shift basis. Improved operating rates and other productivity gains resulted in a 14% decline in unit cash conversion costs during the current quarter. Costs in the first quarter of 2011 were also adversely impacted by production inefficiencies due to disruptions from construction activity at Fort St. James as it completed its capital expenditure program, and the preparation at both sites for the start-up of second shifts.

Log costs increased during the current quarter by 13% over the first quarter of 2011, with about one-third of the increase attributable to lower lumber recovery and the balance due to increased costs. Unit SG&A costs attributable to the lumber segment improved by 45% in the current quarter.

In addition to the cost of goods sold related to the shipment of Conifex produced lumber, cost of goods sold reported in the first quarter of 2012 includes costs related to shipment of wholesale lumber by CFMI and freight procurement costs related to third party revenue generated by Navcor. Wholesale lumber can be purchased on a free on board origin or other destination basis. As the entire third party purchase is recorded as cost of goods sold, this category could include freight costs embedded in the delivered price paid to the vendor.

Freight and distribution costs related to shipments of Conifex produced lumber on a per unit basis were 4% lower in the current quarter compared to the previous quarter with part of the decline attributable to the stronger Canadian currency. Compared to the first quarter of 2011, freight and distribution costs on a per unit basis were 16% higher as a result of a slightly weaker Canadian dollar and a significantly higher proportion of sales transacted on a free on board mill basis last year.

The change in export tax costs between the comparative periods is reflective of both the fluctuation of shipment volumes to the U.S. market and the per unit valuation on which the export tax rate is applied.

Bioenergy Segment

The Company is constructing a 36 megawatt biomass power plant in Mackenzie B.C. (the “Bioenergy Project”). The Bioenergy Project is planned to be constructed adjacent to its currently idled Site I sawmill complex within an existing building with supporting infrastructure that housed an 186,000 ton per year newsprint production facility. The project involves the construction of a bioenergy electricity generator plant designed for annual generating capacity of 230 gigawatt hours. Project scope includes the upgrade of the existing power island infrastructure and the purchase of a 36 megawatt steam turbine generator.

The Company has executed an Electricity Purchase Agreement (“EPA”) and a Load Displacement Agreement (“LDA”) with BC Hydro. Under the EPA, the Company will supply the contracted amount of electrical energy each year to BC Hydro over a 20-year term. Under the LDA, the Company will deliver a contracted amount of electrical energy to supply the energy requirements of its two Mackenzie sawmills over the concurrent 20-year term of the EPA. The EPA was accepted as an energy supply contract by the British Columbia Utilities Commission

("BCUC") after quarter end as described below under Subsequent Events. The Company expects to commence delivery of electricity under the agreements in the third quarter of 2013.

The Company continues to undertake critical path project development activities, and with the BCUC approval, is working towards securing financing and finalizing other key agreements as further detailed below under Subsequent Events. The demolition of the existing paper mill equipment at the project site is currently underway and expected to be completed ahead of schedule.

Capital expenditures related to the Bioenergy Project totalled $1.9 million during the first quarter of 2012 and $2.2 million during the previous quarter. Project expenditures to date totalled $9.1 million at March 31, 2012 and included $2.7 million reflected in accounts payable at period end.

The net loss reported in the bioenergy segment for the comparative periods arises from costs related to holding idled facilities such as insurance and property tax and to professional fees related to activities undertaken in this segment.

Corporate costs and other items

Financing costs for the first quarter of 2012 and the fourth quarter of 2011 include interest expense and amortization of financing costs associated with the $12 million private placement of notes completed on December 1, 2011.

FINANCIAL POSITION AND LIQUIDITY

SELECTED CASH FLOW ITEMS

(millions of dollars)	**Q1 2012**	**Q4 2011**	**Q1 2011**
Operating Activities			
Cash used before working capital changes	(3.1)	(4.5)	(2.2)
Non - cash working capital change	(12.8)	1.9	(12.1)
Cash used in operating activities	(15.9)	(2.6)	(14.3)
Investing Activities			
Additions to property, plant, equipment	(4.4)	(2.8)	(3.6)
Acquisition of subsidiaries	-	(2.2)	-
Proceeds on disposal of assets held for sale	0.2	-	0.8
Cash used in investing activities	(4.2)	(5.0)	(2.8)
Financing Activities			
Net proceeds from private placement	26.9	-	-
Proceeds from secured notes	-	11.8	-
Repayment of loans	(0.4)	(0.4)	-
Cash provided from financing activity	26.5	11.4	-
Change in cash	6.4	3.8	(17.1)

The $1.4 million decrease in cash used in operating activities before working capital changes in the first quarter of 2012 over the previous quarter is attributable primarily to the reduction of net loss.

Net working capital employed in operations at the end of the first quarter of 2012 totaled $28.9 million, an increase of $12.8 million over the period end of the previous quarter. The build-up of log inventories in anticipation of seasonal delivery restrictions accounted for $9.8 million of the increase. The remaining $3.0 million increase in working capital was comprised of an increase in accounts receivable partly offset by an increase in accounts payable, and finished lumber inventories, primarily to support increased shipment volumes, the wholesale lumber business of CFMI and the third party logistics business of Navcor. Net working capital increased by $6.5 million compared to the first quarter of 2011 of which $5.1 million was represented by an increase in inventories.

Investment activities during the first quarter of 2012 were comprised of additions to capital assets related to the installation of an automated grading system and the development of the Bioenergy Project at Mackenzie. Investment activities of $5.0 million during the fourth quarter of 2011 included $2.2 million spent on the Bioenergy Project and $2.2 million on the acquisition of CFMI and Navcor. The capital expenditure of $3.6 million during the first quarter of 2011 was related to the major upgrade undertaken at the Fort St. James complex.

Financing activity during the first quarter of 2012 consisted of net proceeds from the Private Placements of $26.9 million and the quarterly repayment of the Community Adjustment Fund ("CAF") loan of $0.4 million. Financing activities in the previous quarter included net proceeds of $11.8 million from the private placement of secured senior notes.

Cash and cash equivalents increased by $6.4 million during the first quarter of 2012 compared to an increase of $3.8 million in the fourth quarter of 2011 and a decrease of $17.1 million during the first quarter of 2011. The Company had cash and cash equivalents on hand of $19.1 million at March 31, 2012 compared to $9.5 million at March 31, 2011. The Company ended the first quarter of 2012 with net debt of $7.5 million and net debt to capitalization ratio of 7%.

LIQUIDITY

The Company's current principal sources of funds are cash flow from operations and cash on hand. The Company's principal uses of funds consist of operating and capital expenditures.

As part of its overall strategy, the Company may acquire businesses or additional assets from time to time as such opportunities arise. As a result, the Company may require substantial additional capital resources. The Company expects such additional capital resources will be generated from debt financing and/or the sale of equity securities.

In February, 2012, the Company completed the Private Placements of common shares from treasury for total net proceeds of approximately $26.9 million. With the mid-April 2012 BCUC approval of its EPA with BC Hydro as described below under Subsequent Events, the Company is working towards securing project financing to develop its Bioenergy Project at Mackenzie B.C. The Company also intends to secure credit facilities for its lumber segment operations.

The Company's working capital levels fluctuate throughout the year and are affected by changes in operating rates, changing sales patterns, seasonality and the timing of receivables and the payment of payables and expenses. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months to ensure adequate supply of fibre to its mills during the spring months. Changes in sales volume and price can affect the level of receivables and influence overall working capital levels. The significant increase in shipments to export markets has increased the level of in transit finished goods inventory typically held by the Company. Additional working capital is also required to support the third party transactions undertaken by CFMI and Navcor. The Company believes its management practices with respect to working capital conform to common industry practices.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary	2012	2011				2010		
(millions of dollars except share and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales -Lumber	39.4	34.0	33.8	22.5	18.5	16.2	13.0	10.7
- By-products	4.5	4.7	4.4	4.4	2.6	2.0	1.5	1.9
- Freight services	3.5	-	-	-	-	-	-	-
Total Sales	47.4	38.7	38.2	26.9	21.1	18.2	14.5	12.6
Operating loss	(6.2)	(6.8)	(3.3)	(4.1)	(3.8)	(2.7)	(2.4)	(1.8)
Net loss	(6.5)	(7.5)	(2.2)	(3.6)	(3.6)	(3.9)	(2.9)	(2.4)
Net loss per share - basic and diluted	(0.38)	(0.49)	(0.14)	(0.24)	(0.24)	(0.26)	(0.19)	(0.31)
EBITDA	(3.8)	(5.2)	0.6	(0.8)	(1.3)	(2.2)	(1.8)	(0.8)
Shares outstanding - end of period (millions)	19.4	15.2	15.2	15.2	15.2	15.2	15.1	15.1
Shares outstanding - weighted average (millions)	17.3	15.2	15.2	15.2	15.2	15.1	15.1	7.6
Statistics								
Lumber shipments - Conifex product (MMfbm)	114.8	123.6	115.4	81.5	62.5	49.0	40.2	30.7
Lumber production (MMfbm)	111.1	94.9	101.6	102.4	63.5	49.1	39.3	41.3
Average exchange rate - US$/Cdn$ (1)	0.999	0.977	1.020	1.0335	1.0142	0.987	0.962	0.973
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 267	$ 239	$ 246	$ 240	$ 297	$ 268	$ 222	$ 266
Average WSPF 2x4 #2&Btr lumber price (Cdn$)	$ 267	$ 244	$ 241	$ 232	$ 293	$ 272	$ 230	$ 273

(1) Source: Bank of Canada website www.bankofcanada.ca
(2) Source: Random Lengths Publications Inc.

Reconciliation of EBITDA to Net Loss	2012	2011				2010		
(millions of dollars)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net loss	(6.5)	(7.5)	(2.2)	(3.6)	(3.6)	(3.9)	(2.9)	(2.4)
Add: Interest expense	0.5	0.3	0.1	0.1	-	-	-	-
Depreciation and amortization	1.8	1.6	1.8	1.7	1.4	1.0	0.5	0.5
Deferred union payroll liability	-	(0.1)	0.3	0.5	0.3	0.2	0.2	-
Share based compensation	0.1	0.2	0.3	0.2	0.3	0.3	0.1	0.1
Accretion of convertible debentures	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5
Revaluation of Fourth shares to fair value	-	-	-	-	-	-	-	0.5
EBITDA*	(3.8)	(5.2)	0.6	(0.8)	(1.3)	(2.2)	(1.8)	(0.8)

*May not total exactly due to rounding.

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

The Fort St. James mill commenced operations on a one-shift basis in March 2009 and shipments in April 2009.

The Mackenzie Assets were acquired in June of 2010. Manufacturing operations started at the Site II sawmill and planer mill on a one-shift basis in November of 2010 and a small volume of lumber was shipped in December of 2010 from this location. Shutdown costs directly related to the non-operational assets are included in the results of the third and fourth quarter of 2010.

On December 31, 2011, the Company internalized its previously outsourced marketing and logistics function by completing the acquisition of a commodity lumber business and a transportation and logistics business. Both of the newly acquired businesses have generated incremental revenue from third party transactions.

Due to the cyclical nature of the forest products industry and the economic conditions over the last several years, the Company has not recognized certain future income tax assets arising from loss carry-forwards available to reduce future taxable income.

SOFTWOOD LUMBER AGREEMENT

On January 18, 2011, the U.S. triggered the arbitration provision of the 2006 Softwood Lumber Agreement ("SLA") by delivering a Request for Arbitration. The U.S. claims that BC has not properly applied the timber pricing system grandparented in the SLA. The U.S. also claims that subsequent to 2006, BC made additional changes to the timber pricing system which had the effect of reducing timber prices. The claim focuses on the substantial increases in Grade 4 (non sawlog or low grade) volumes commencing in 2007. It is alleged that timber was scaled and graded as Grade 4 that did not meet the criteria for that grade and was accordingly priced too low.

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. The U.S. filed a Statement of Case with the arbitration panel in August 2011. Canada delivered its response to the U.S. claim in November 2011 to which the U.S. filed a reply. Canada filed a response in early February 2012. During the quarter, a hearing was held before the arbitration panel, which is not expected to render its decision until the second half of 2012. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

SUBSEQUENT EVENTS

Completion of automated grading system installation at Mackenzie

The Company completed the installation of an automated grading system at its Site II Mackenzie planer mill in April 2012. Key benefits of the project are expected to be improved grade outturns, productivity gains from increased throughput and lower labour costs.

Approval of EPA by B.C. Utilities Commission

On April 17, 2012, the BCUC approved the Company's EPA with BC Hydro as an energy supply contract. The Company executed its EPA and related LDA with BC Hydro in June 2011.

Issuance of industry wide safety reviews

In the wake of explosions and resulting fires that destroyed two northern interior B.C. sawmills in separate incidents in January and April of 2012, WorkSafeBC ("WSBC") ordered province-wide sawmill safety reviews, including full hazard identification and risk assessment with particular focus on combustible dust, dust accumulation and potential ignition sources. WSBC is the workers' compensation insurer in B.C. WSBC officers visited both Conifex mill sites in early May and reported satisfaction with the condition of both sawmills and the speed of the Company's response to the WSBC order.

In early May, the B.C. Safety Authority issued an order relating to regulated electrical equipment and ordering sawmills to verify valid operating permits are in place, proper maintenance procedures are being followed and incidents are being reported as per existing directives.

Providing a safe work environment for our employees has always been a top priority for the Conifex Board of Directors and management team. Our focus on safety has been heightened in recent months and the Company has undertaken additional initiatives to mitigate workplace hazards. In addition to the clean up and risk mitigation activities that take place between shifts and on weekends, in April 2012, the Company curtailed operations at both of its mills. The curtailment enabled us to undertake even more comprehensive clean up measures and safety inspections, to revisit all our risk and hazard assessments, and to increase our safety and risk awareness measures with our employees. The Company estimates costs associated with these initiatives will result in a non-recurring expense of approximately $1 million in April. The Company has also engaged the services of an expert experienced in high hazard industries and is participating in an industry Task Force established to investigate combustion risks in mills.

Bioenergy Project capital expenditures

On May 22, 2012, the Company approved a capital expenditures budget estimated to be $79 million, including a $7 million general contingency, to develop the Bioenergy Project at Mackenzie B.C. The $72 million amount, net of the contingency, represents an increase over previously estimated amounts with the increase largely due to the acceleration of certain project enhancements originally contemplated to be undertaken during the first three years of commercial operations and funded out of segment cash flows. The Company has decided to include these additional components within the initial construction phase in order to avoid further construction related disruptions to ensuing future bioenergy activities at the site. The expanded scope is expected to increase EBITDA as a result of improved uptime and fuel efficiency and reduced operating and maintenance costs.

The existing project site and infrastructure carries a book value of approximately $10 million and as at March 31, 2012, the Company has invested an additional $9.1 million in project development and equipment costs. The Company expects to invest an additional $7 million in the project and expects to secure debt facilities to finance the balance of the expenditures. Proceeds of the LDA incentive funds will also be available to the Company. The Company expects project financing to be in place and construction to commence in or about the third quarter of 2012.

The Bioenergy Project is subject to a number of risks and uncertainties, including, among others the failure to obtain the required regulatory approvals, cancellation penalty payable to a major equipment manufacturer if the project does not proceed, financial penalties if the project does not generate the contracted amount of energy, failure to attract required personnel and skills to operate the facilities, and failure of the equipment and technology to perform as expected. There is no assurance that the Bioenergy Project will be completed on time, on budget or at all.

OUTLOOK AND STRATEGY

Lumber segment

The Company expects the combination of increased mill net realization and a reduction of unit conversion costs to improve its lumber segment EBITDA in the second and subsequent quarters compared to first quarter 2012 results. Factors contributing to our positive outlook include:

- An increase in production and shipments of premium products to Japan
- Richer product mix, increased productivity and lower labour costs with the April 2012 completion of the installation of the automated grading system at Mackenzie
- Increase in #2 and Better and Select prices late in the first quarter with further price appreciation in the second quarter
- Significant increase in low grade prices late in the first quarter and sustained in the second quarter

Bioenergy segment

The Company intends to continue to concentrate on completing critical path project development activities required to secure project financing for the Bioenergy Project. Activities planned include completion of the independent engineer report and finalization of construction and other key agreements.

OUTSTANDING SECURITIES

As at May 15, 2012, the Company had 19,367,995 issued and outstanding common shares, 100,000 options granted under the Company's stock option plan dated June 3, 2010, 530,571 long-term incentive plan awards issued under the Company's long-term incentive plan dated June 3, 2010, and amended June 21, 2011, 325,000 warrants, and stepped rate subordinated convertible promissory notes in the aggregate principal amount of $9,967,000, which notes are convertible into a maximum of 1,245,875 common shares of the Company, excluding any common shares issuable in payment of accrued interest thereon.

ACCOUNTING POLICY CHANGES

Effective January 1, 2012, the Company retroactively changed its accounting policy to reclassify costs related to shipping and administrative activities at its lumber manufacturing locations included in selling, general and administrative expense to cost of goods sold. Management considers classification of shipping and administrative costs directly related to the lumber manufacturing locations with cost of goods sold to provide more relevant information on the operating results of the Company, particularly with the recent acquisition of its marketing and transportation subsidiaries.

NEW ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

For a review of new accounting pronouncements issued but not yet applied, see the 2011 annual MD&A which is available on www.sedar.com and www.conifex.com.

RISKS AND UNCERTAINTIES

A discussion of the risks and uncertainties to which the Company is subject is included in the 2011 annual MD&A which is available on www.sedar.com and www.conifex.com.

ADDITIONAL INFORMATION

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