



**CONIFEX TIMBER INC.
FIRST QUARTER 2018**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 14, 2018

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

In this interim MD&A, reference is made to "EBITDA" and "EBITDA margin". EBITDA represents earnings before finance costs, taxes, and depreciation and amortization. "EBITDA margin" is defined as EBITDA as a percentage of sales. The Company discloses EBITDA and EBITDA margin as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA and EBITDA margin are non-GAAP measures, they may not be comparable to EBITDA and EBITDA margin calculated by others. In addition, EBITDA and EBITDA margin are not substitutes for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

In this interim MD&A, all references to "\$" are to Canadian dollars and references to "US\$" are to United States 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: growth and future prospects of our business; our expectation for sales realizations; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our expectation for market volatility associated with the softwood lumber dispute with the U.S.; 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 U.S. dollar benchmark prices; benefits that may accrue to the Company as a result of certain capital expenditure programs, such as the lumber segment capital plan and equipment upgrades; our expectations regarding the Mackenzie Power Plant power production; our use of proceeds of financing operations; our expectations about the IFRS amendments; and the anticipated benefits, cost and timing of operations of our El Dorado Mill.

Assumptions underlying our expectations regarding forward-looking information contained in this interim MD&A include, among others: that we will be able to effectively market our products; that the U.S. housing market will continue to improve; that there will be no unforeseen disruptions affecting the

operation of our power generation plant and that we will be able to continue to deliver power therefrom; that softwood lumber will experience sustained demand in the marketplace; the general stability of the economic, political and regulatory environments within the countries where we conduct operations; our ability to obtain financing (if necessary) on acceptable terms or at all; that interest and foreign exchange rates will not vary materially from current levels; that the equipment at our mills and power plant will operate at expected levels; and that management will effectively execute the Company's strategy to grow and add value to its business.

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 5, 2018 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities law.

RECENT DEVELOPMENTS

Update on El Dorado Mill Operations

We commenced shipment of residual products from our recently commissioned sawmill complex in El Dorado, Arkansas (the "El Dorado Mill") in November 2017 and modest lumber shipments in late December. We offset revenues generated from the El Dorado Mill in the fourth quarter of 2017 and the first quarter of 2018 to capitalized commissioning and start-up costs and have not included such revenues in operating results.

We had previously expected to commence recording of commercial operations midway through the first quarter of 2018. We have experienced lower operating rates in the sawmill and planer mill than anticipated due to continued training for new personnel, customary ramp-up issues related to integrating brownfield and greenfield equipment, and to some degree, periodic inclement weather conditions.

Shipments of Southern Yellow Pine were at an approximate annual run rate of 70 million board feet in March 2018, equivalent to approximately 40% of two-shift capacity of 180 million board feet. In April, hourly productivity improved and we extended operating hours. Commercial operations will be recorded in our operating results commencing in April 2018.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information, unaudited)	Q1 2018	Q4 2017	Q1 2017
Sales by Segment			
Lumber	123.3	124.5	93.5
Bioenergy	7.5	8.2	6.8
	130.8	132.7	100.3
Operating Earnings by Segment			
Lumber	6.7	13.9	1.8
Bioenergy	2.0	2.9	1.3
Corporate and other unallocated items	(1.7)	(2.1)	(1.6)
	7.0	14.7	1.5
EBITDA by Segment			
Lumber	7.3	15.5	5.1
Bioenergy	3.6	4.5	2.8
Corporate and other unallocated items	(1.6)	(2.5)	(1.8)
	9.3	17.5	6.1
Net income (loss)	2.5	8.0	(1.4)
Net income (loss) per share - basic and diluted	0.10	0.30	(0.06)
Shares outstanding - weighted average (millions)	26.4	26.4	22.5
Average exchange rate - US\$/Cdn\$ (1)	0.791	0.787	0.756
Reconciliation of EBITDA to Net Income (Loss)			
Net income (loss)	2.5	8.0	(1.4)
Add: Finance costs	1.6	1.6	2.6
Amortization	4.5	4.8	4.9
Deferred income tax expense	0.7	3.1	-
EBITDA (2)	9.3	17.5	6.1

(1) Source: Bank of Canada, www.bankofcanada.ca.

(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

Revenues of \$130.8 million in the first quarter of 2018 were generally consistent with the previous quarter and reflected an increase of 30% over the first quarter of 2017.

First quarter lumber segment operating income of \$6.7 million represented a decline of \$7.2 million from the prior quarter and an improvement of \$4.9 million over the first quarter of 2017. Lumber segment operating results included countervailing ("CV") and anti-dumping ("AD") duties expense of \$6.3 million in the first quarter of 2018 and \$1.9 million in the previous quarter. The bioenergy segment contributed operating earnings of \$2.0 million in the current quarter compared to \$2.9 million in the previous quarter and \$1.3 million in the same quarter last year. Corporate costs of \$1.7 million were similar to the first quarter last year and reduced by \$0.4 million from the previous quarter. Operating earnings were \$7.0 million for the current quarter compared to \$14.7 million in the previous quarter and \$1.5 million in the first quarter of 2017.

Net income for the first quarter of 2018 was \$2.5 million, or \$0.10 per share, compared to net income of \$8.0 million or \$0.30 per share in the previous quarter and a net loss of \$1.4 million or \$0.06 per share in the first quarter of 2017. Net income for the first quarter of 2018 and the fourth quarter of 2017 included

realized and unrealized losses on derivative financial instruments of \$2.3 million and \$1.6 million, respectively. The losses from lumber futures contracts were generally attributable to the steady rise of commodity lumber prices throughout the first quarter of 2018 and the previous quarter.

EBITDA was \$9.3 million in the first quarter of 2018 compared to \$17.5 million in the fourth quarter of 2017 and \$6.1 million in the first quarter of 2017. Compared to the previous quarter, lumber segment EBITDA declined by \$8.2 million and bioenergy segment EBITDA by \$0.9 million. Compared to the first quarter of 2017, lumber segment EBITDA improved by \$2.2 million and bioenergy segment EBITDA by \$0.8 million.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)	Q1 2018	Q4 2017	Q1 2017
Sales -Lumber - Conifex produced	70.2	81.0	56.7
- Lumber - wholesale	42.1	33.0	28.4
- By-products	6.3	6.5	5.4
- Logistics services	4.7	4.0	3.0
Total Sales	123.3	124.5	93.5
EBITDA	7.3	15.5	5.1
Amortization and other	2.9	3.2	3.3
Loss on derivative financial instruments	(2.3)	(1.6)	-
Operating income	6.7	13.9	1.8

Statistics (in millions, other than exchange rate and lumber prices)

Lumber production (MMfbm)	123.7	129.9	123.7
Lumber shipments - Conifex product (MMfbm)	112.7	138.2	110.7
Lumber shipments - Wholesale (MMfbm)	55.1	45.4	41.0
Average exchange rate - US\$/Cdn\$ (1)	0.791	0.787	0.756
Average WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$513	\$462	\$348
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (3)	\$649	\$588	\$460
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$472-\$542	\$436-\$494	\$306-\$389

(1) Source: Bank of Canada, www.bankofcanada.ca

(2) Source: Random Lengths Publications Inc.

(3) Average WSPF 2x4 #2&Btr lumber price (US\$) divided by average exchange rate.

The U.S. Census Bureau reported privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.32 million units over the first quarter of 2018, a level which represents increases of approximately 5% over the previous quarter and 6% over the first quarter of 2017. Single-family housing starts accounted for 67% of total first quarter 2018 U.S. housing starts, a level similar to the first quarter of 2017 and a decrease in units of 4% over the previous quarter. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

Prices for the bell-weather WSPF #2 & Btr product averaged US\$513 during the first quarter of 2018, an improvement of 11% over the previous quarter and 47% over the first quarter of 2017.¹ Several industry

¹ As quoted in Random Lengths Publications Inc.

analysts have attributed the sustained improvement in the U.S. dollar benchmark price to steady demand growth in the U.S. market, shipment constraints due to transportation challenges, and imposition of CV and AD duties on U.S. destined shipments. Combined CV and AD duty rates of 20.23% for most Canadian exporters of softwood lumber to the U.S. were in effect for the first quarter of 2018 and are expected to remain in effect for the balance of the year.

The Canadian dollar strengthened against the U.S. dollar during the first quarter of 2018 and averaged US\$0.791, which represented a modest appreciation over the previous quarter and a 5% increase over the same quarter last year.² Canadian dollar-denominated benchmark lumber prices averaged \$649 in the first quarter of 2018, an increase of \$61 or 10% over the previous quarter and \$189 or 41% over the first quarter of 2017.

The U.S. and China remained our principal markets and together accounted for approximately 73% of total lumber shipments in the first quarter of 2018 and the previous quarter and 82% in the first quarter of 2017. Shipments to Japan remained steady at approximately 7%. Shipments to other offshore markets averaged about 4% of total volumes in each of the comparative quarters. The balance of lumber shipments were directed to the Canadian market.

Revenues from Conifex produced lumber were \$70.2 million in the first quarter of 2018. The decline of 13% from the previous quarter was mostly attributable to 18% lower shipment volumes which were somewhat offset by a 6% improvement in sales realizations. Lumber shipments were primarily impacted by constrained availability of railcars and trucks in Western Canada partly due to challenging weather conditions. The gain in sales realizations generally reflected stronger benchmark lumber prices. We shipped approximately 91% of production volumes in the first quarter of 2018. An increase in lumber revenues of 24% over the same quarter last year was mainly attributable to improved sales realizations from higher benchmark prices which were somewhat offset by a stronger Canadian currency.

The increase in wholesale lumber revenues of approximately 28% over the previous quarter and 48% over the first quarter of 2017 was largely attributable to growth in shipment volumes of 21% and 34%, respectively.

Revenues from wood chips and other by-products were generally consistent with the previous quarter and increased by 17% compared to the first quarter of 2017. The year-over-year increase was primarily due to higher unit prices and relative improvement in chip quality.

Lumber production totalled approximately 124 million board feet in the first quarter of 2018 and the same quarter last year and represented an annualized operating rate of 94%, compared to 99% in the previous quarter. Productivity in the first quarter of 2018 was hampered by severe winter weather conditions at both of our BC mills. In the first quarter of 2017, production was reduced by the completion and ramp up of the new log line at our Mackenzie mill, and to a lesser extent, by inclement weather conditions.

Unit log costs increased by 9% over the previous quarter and 15% over the same quarter last year. The higher log costs were mainly attributable to higher market based stumpage and purchased log costs.

An increase in unit cash conversion costs of 11% from the previous quarter was mainly due to lower operating rates and seasonally elevated energy, labour and weather related maintenance costs. Year-over-year unit cash conversion costs were generally consistent.

We expensed CV and AD duty deposits of \$6.3 million, or \$56 per thousand board feet, in the first quarter of 2018 compared to \$1.9 million, or \$14 per thousand board feet, in the previous quarter. There were no softwood lumber duties applicable during the first quarter of 2017.

² Source: Bank of Canada, www.bankofcanada.ca

We recorded realized and unrealized losses on lumber futures contracts of \$2.3 million in the first quarter of 2018 and \$1.6 million in the previous quarter. The loss on derivative financial instruments in the first quarter of 2017 was minimal.

The lumber segment recorded operating income of \$6.7 million in the first quarter of 2018 compared to \$13.9 million in the previous quarter and \$1.8 million in the first quarter of 2017. Compared to the previous quarter, lumber segment operating results were impeded by higher CV and AD duty deposits expense, lower shipment volumes and operating rates and higher unit manufacturing costs which outweighed the benefit of improved sales realizations from higher benchmark lumber prices. Compared to the first quarter of 2017, an improvement in gross sales realizations was somewhat offset by softwood lumber duties expense and higher unit log costs.

Lumber segment EBITDA was \$7.3 million in the first quarter of 2018 compared to \$15.5 million in the previous quarter and \$5.1 million in the first quarter of 2017. Lumber segment EBITDA in the first quarter of 2018 and the previous quarter included the aforementioned realized and unrealized losses on derivative financial instruments.

Bioenergy Segment

	Q1	Q4	Q1
(millions of dollars, other than statistical information, unaudited)	2018	2017	2017
Electricity sales under EPA - GWh	50.5	55.2	46.3
Electricity revenues	7.5	8.2	6.8
EBITDA	3.6	4.5	2.8
Amortization	1.6	1.6	1.5
Operating income	2.0	2.9	1.3

Our Mackenzie power generation plant (the “Mackenzie Power Plant”) sold 50.5 gigawatt hours of electricity under our Electricity Purchase Agreement with BC Hydro (“EPA”) in the first quarter of 2018, which represented approximately 92% of targeted operating rates. An unplanned outage during the quarter resulted in a reduction in electricity sales of 9% from the previous quarter. Current quarter electricity sales improved by 9% over the first quarter of 2017. Electricity sales and plant operating costs in the first quarter of 2017 were adversely impacted by several unplanned outages and challenging weather conditions, which impacted feedstock quality and deliverability. Unplanned outages contributed to increased maintenance related expenses including the use of outside service contractors.

The variability in operating income in the comparative quarters is primarily attributable to fluctuations in revenues as cash operating costs and amortization expense were generally consistent in each period. Bioenergy segment EBITDA was lower by \$0.9 million compared to the previous quarter and increased by \$0.8 million compared to the same quarter last year and reflected an EBITDA margin of 48%.

Dispatch Notice

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

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$1.7 million in the first quarter of 2018, \$2.1 million in the previous quarter and \$1.6 million in the first quarter of 2017. The relatively higher corporate costs in the previous quarter were primarily attributable to variable compensation costs, including equity-based compensation, and costs related to the establishment of a new U.S. business unit.

Interest Expense and Finance Costs

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

Interest and finance costs totalled \$1.6 million in the first quarter of 2018, \$1.6 million in the previous quarter and \$2.7 million in the first quarter of 2017. The comparatively high finance costs in the first quarter of 2017 was mainly attributable to costs related to the completion of our revolving credit facility and the accelerated amortization of finance costs related to early repayment of our senior secured notes.

Loss on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business and to manage interest rate variability. Gain 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's policy is to not use derivatives for trading or speculative purposes. Due to lumber market conditions characterized by steadily rising prices in the first quarter of 2018 and the previous quarter, we recorded losses from lumber derivative instruments of \$2.3 million and \$1.6 million, respectively. The loss was minimal in the first quarter of 2017.

The term loan provided under the power project financing consists of a floating rate tranche and a fixed rate tranche. Our subsidiary, Conifex Power Limited Partnership, entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the term loan to fixed interest rates. Losses of \$0.2 million on the interest rate swap instruments were recorded as interest expense in each of the comparative quarters.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period results from the revaluation of U.S. dollar-denominated working capital balances and U.S. dollar-denominated debt to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the period end rate. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period.

The exchange rate for one Canadian dollar was US\$0.776 at March 31, 2018, US\$0.797 at December 31, 2017 and US\$0.751 at March 31, 2017.³ We recorded foreign exchange translation gains of \$0.1 million in the first quarter of 2018 and in the previous quarter and a foreign exchange translation loss of \$0.2 million in the first quarter of 2017.

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

Income tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. As at March 31, 2018, the Company recognized net deferred income tax liabilities of \$3.8 million and recorded deferred income tax expense of \$0.7 million in the first quarter of 2018 and \$3.1 million in the previous quarter.

SUMMARY OF FINANCIAL POSITION

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

	Q1	Q4	Q1
(millions of dollars, unaudited)	2018	2017	2017
Cash	8.6	16.9	13.8
Cash - restricted	11.3	9.3	10.5
Operating working capital	81.0	69.7	77.2
Operating loans	(1.6)	(1.6)	(1.6)
Current portion of long-term debt	(5.9)	(5.9)	(4.6)
Net current assets	93.4	88.4	95.3
Long-term assets related to Mackenzie Power Plant	112.4	113.9	117.2
Long-term assets - lumber segment and corporate	198.2	193.0	148.9
	404.0	395.3	361.4
Non-interest bearing long-term liabilities	26.0	23.4	21.1
Long-term debt - Mackenzie Power Plant term loan	60.3	62.5	67.3
Revolving credit facility	99.9	94.2	82.4
Long-term debt - other	5.3	5.6	-
Shareholders' equity	212.5	209.6	190.6
	404.0	395.3	361.4
Ratio of current assets to current liabilities	2.8	2.8	3.3
Net debt to capitalization	44%	41%	41%
Net debt to capitalization (1)	32%	29%	27%

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

We believe that we maintained conservative current assets to current liabilities ratios of 2.8:1 at March 31, 2018 and December 31, 2017 and 3.3:1 at March 31, 2017.

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

Net debt at March 31, 2018 was \$166.3 million. The increase of \$22.6 million from December 31, 2017 was due primarily to an increase in non-cash working capital of \$11.3 million and capital expenditures (on a cash basis) totaling \$8.8 million. The net debt to capitalization ratio was 44% at March 31, 2018 compared to 41% at December 31, 2017. We expect this ratio will improve from the reduction of operating working capital levels in the second quarter and expected contribution of cash flow from the El Dorado Mill in subsequent quarters.

Excluding the effects of borrowings by Conifex Power Limited Partnership, the net debt to capitalization ratio was 32% compared to 29% at December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

	Q1	Q4	Q1
(millions of dollars, unaudited)	2018	2017	2017
Cash generated from (used in)			
Operating activities	1.9	2.9	(4.6)
Financing activities	0.7	5.9	33.5
Investing activities	(8.8)	(9.7)	(27.6)
Increase (decrease) in cash	(6.2)	(0.9)	1.3

Operating Activities

We operate in a cyclical industry.

Working capital levels fluctuate through 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 the 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 and variability in export shipments can impact the level of lumber inventories. We believe our management practices with respect to working capital conform to common business practices in our industry.

We generated cash from operations before working capital changes of \$12.2 million and consumed cash of \$10.3 million in incremental working capital in the first quarter of 2018. The change in non-cash working capital included increases in log inventories of \$7.2 million, lumber inventories of \$7.8 million and accounts payable of \$4.5 million. The increase in log inventories was due to the seasonal build-up of logs in anticipation of curtailed log deliveries during the spring months. Lumber inventories were at unusually elevated levels as shipments during the quarter were constrained by challenging weather conditions which tightened supply of railcars and trucks in Western Canada.

We generated cash from operations before working capital changes of \$19.0 million and used cash of \$16.1 million in incremental working capital in the fourth quarter of 2017. The change in non-cash working capital was largely comprised of reduction in accounts payables and increases in prepaid expenses and inventories.

We generated cash from operations before working capital changes of \$8.1 million and consumed cash of \$12.7 million in additional working capital in the first quarter of 2017. The change in non-cash working capital was primarily due to increases in log inventories and lumber inventories.

Financing Activities

Financing activities provided net cash of \$0.7 million in the first quarter of 2018 and included net proceeds from operating loans of \$5.6 million, debt repayments of \$2.7 million and payment of finance expenses of \$2.3 million.

Financing activities provided net cash of \$5.9 million in the fourth quarter of 2017 and were primarily comprised of net proceeds from operating loans of \$8.8 million and capital leases of \$1.2 million, repayment of our term loan of \$2.4 million, and the payment of finance expenses of \$1.6 million.

Financing activities provided net cash of \$33.5 million in the first quarter of 2017 and included net proceeds from operating loans of \$55.8 million and the public offering and private placement of \$14.2

million. Cash outflows included repayment in full of senior secured notes of \$20.3 million and the El Dorado mortgage of \$10.4 million, partial repayment of our term loan of \$1.8 million, and the payment of finance expenses of \$4.1 million. The comparatively higher cash finance expenses were mainly attributable to costs related to the completion of our revolving credit facility.

Investing Activities

Investing activities consumed cash of \$8.8 million in the first quarter of 2018 and consisted of \$1.7 million on capital expenditures at our BC mills and \$7.1 million on expenditures related to the El Dorado Mill, which largely comprised remaining payments on previously accrued capital commitments and capitalization of start-up costs.

Investing activities consumed cash of \$9.8 million in the fourth quarter of 2017 and mainly consisted of capital expenditures of \$1.2 million in the lumber segment and \$8.5 million on capital upgrades at the El Dorado Mill.

Investing activities consumed cash of \$27.6 million in the first quarter of 2017 and consisted of \$2.4 million on capital improvements in the lumber segment, \$0.1 million related to the Mackenzie Power Plant and \$24.9 million on the capital upgrades at the El Dorado Mill. Lumber segment capital expenditures for our Canadian mills were primarily related to the completion of the upgrade of a log line at the Mackenzie sawmill, a project which was initiated in December 2016.

Liquidity

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

Total liquidity is comprised of unrestricted cash and available credit under our revolving credit facilities. At March 31, 2018, we had total liquidity of \$37.3 million, compared to \$49.2 million at December 31, 2017 and \$61.6 million at March 31, 2017. Liquidity at March 31, 2018 was comprised of unrestricted cash of \$8.6 million and unused availability under our revolving credit facilities of \$28.7 million. Availability under the revolving credit facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, plus the appraised values of certain forest licences, net of specific reserves.

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

Our investment in operating working capital was at a seasonal peak at the end of March 31, 2018 and increased by \$11.3 million over the previous quarter due to the build in log inventories and higher than typical lumber inventories. In the second quarter of 2018, liquidity is expected to be positively impacted by the drawing of log inventories to seasonal lows and the expected return to more normalized lumber inventory levels.

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

In the future, we may make acquisitions of businesses or assets or commitments to additional capital projects. To achieve the long-term goals of expanding our assets and earnings, including through

acquisitions, additional capital resources will be required. We expect such additional capital resources will be generated from debt financing and/or the sale of equity securities, but no assurance may be given that such additional capital resources will be available on satisfactory terms, or at all.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements as at March 31, 2018 were comprised of standby letters of credit totalling \$12.7 million posted by Conifex Power Limited Partnership, and operating leases for vehicles, equipment and machinery.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber prices)	2018		2017		2016			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales - lumber segment	123.3	124.5	114.2	111.7	93.5	94.4	99.2	98.7
Sales - electricity	7.5	8.2	6.1	4.7	6.8	7.6	4.9	5.0
Operating income	7.0	14.7	8.8	6.4	1.5	6.7	3.3	5.1
Net income (loss)	2.5	8.0	6.2	4.2	(1.4)	5.1	1.4	35.2
Net income (loss) per share - basic	0.10	0.30	0.23	0.16	(0.06)	0.24	0.07	1.67
Net income (loss) per share - diluted (1)	0.10	0.30	0.23	0.16	(0.06)	0.24	0.07	1.54
Adjusted EBITDA (2)	9.3	17.5	12.1	10.2	6.1	9.3	8.5	9.0
Shares outstanding - weighted average (millions)	26.4	26.4	26.4	26.3	22.5	21.2	21.2	21.1

Statistics (in millions, other than exchange rate and lumber prices)

Lumber production (MMfbm)	123.7	129.9	133.4	131.6	123.7	118.7	136.2	134.7
Lumber shipments - Conifex produced (MMfbm)	112.7	138.2	135.3	128.5	110.7	124.4	132.3	138.4
Lumber shipments - wholesale (MMfbm)	55.1	45.4	37.6	38.4	41.0	40.5	39.6	41.0
Electricity production - GWh	50.5	55.2	55.2	51.0	46.3	53.0	37.6	55.1
Average exchange rate - US\$/Cdn\$ (3)	0.791	0.787	0.798	0.744	0.756	0.750	0.766	0.776
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$514	\$464	\$406	\$388	\$348	\$316	\$321	\$311
Average WSPF 2x4 #2&Btr lumber price (Cdn\$)(5)	\$650	\$590	\$509	\$522	\$460	\$421	\$418	\$401

Reconciliation of Adjusted EBITDA to Net Income (Loss)

Net income (loss)	2.5	8.0	6.2	4.2	(1.4)	5.1	1.4	35.2
Add: Finance costs	1.6	1.6	1.6	1.7	2.6	2.1	2.3	2.3
Amortization	4.5	4.8	4.3	4.3	4.9	4.6	4.8	3.9
Deferred income tax expense	0.7	3.1	-	-	-	-	-	-
EBITDA (6)	9.3	17.5	12.1	10.2	6.1	11.8	8.5	41.4
Less: Gain on sale of assets	-	-	-	-	-	-	-	(19.0)
Less: Gain on revaluation of joint venture	-	-	-	-	-	-	-	(19.2)
Less: Net proceeds from insurance settlement	-	-	-	-	-	(2.5)	-	-
Add: Impairment of property, plant and equipment	-	-	-	-	-	-	-	5.8
Adjusted EBITDA	9.3	17.5	12.1	10.2	6.1	9.3	8.5	9.0

- (1) If the conversion of convertible notes and/or the inclusion of outstanding warrants is anti-dilutive, it is excluded from the calculation of diluted net income per share.
- (2) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation and proceeds from business interruption insurance claim settlement.
- (3) Source: Bank of Canada website www.bankofcanada.ca.
- (4) Source: Random Lengths Publications Inc.
- (5) Average WSPF 2x4 #2&Btr lumber price (US\$) divided by average exchange rate.
- (6) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

Our quarterly financial results are impacted by a variety of market related or regulatory 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 U.S., 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 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 depreciation and interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

OUTLOOK AND STRATEGIC CAPITAL EXPENDITURES

Operations and Lumber Market Outlook

We expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We expect benchmark prices for WSPF and Southern Yellow Pine to remain at elevated levels to reflect solid softwood lumber demand and the continued imposition of trade sanctions on Canadian softwood lumber exports to the U.S. The extent to which the anticipated increase in U.S. softwood lumber demand translates into higher selling prices will also be influenced by supply side responses from Canadian and other suppliers into the U.S. market. We expect the uncertainty created by the softwood lumber trade dispute and possible supply chain disruptions from potential equipment and labor shortages will contribute to price volatility in the North American market.

We expect our sales volume to China and Japan will remain steady and intend to continue to develop sales into other export markets. We expect to sustain the year-over-year gains in sales realizations achieved in 2017 in our key export markets.

We expect to return to more typical operating rates at our BC mills in the second quarter of 2018 and a year-over-year gain in production levels from completed and planned capital upgrades. We expect a sequential improvement in lumber shipments as weather related transportation delays are largely alleviated over the next two quarters and lumber inventories return to normalized levels. We expect continued log cost inflation in our operating areas in the interior region of B.C. due to forecast heightened lumber prices which will contribute to higher market based stumpage and purchased log costs. We expect unit cash conversion costs to remain relatively consistent.

We expect to make sustained progress in productivity levels at the El Dorado Mill and continue to target annualized operating rates of approximately 90% by December 2018.

SUBSEQUENT EVENT

On May 15, 2018, Conifex entered into a Securities Purchase Agreement (the “SPA”) with BW SLC Holdings, LLC and the minority shareholders of Caddo River Forest Products, LLC (together, the

“Vendors”) to purchase all of the outstanding membership interests of Suwannee Lumber Holding Company, LLC, Suwannee Timber Management, LLC and Caddo River Forest Products, LLC, (collectively, the “BW Group”). Our consideration for the acquisition of the BW Group consists of US\$ 150.0 million plus the net working capital of the BW Group at closing in cash; the value of US\$50.0 million through the issuance of common shares of Conifex (the “Common Shares”) provided, however, that to the extent the Common Shares issued to the Vendors would exceed 19.9% of the issued and outstanding Common Shares, the excess amount shall be satisfied in cash; and 3,500,000 warrants to purchase Common Shares exercisable into a Common Share for a period of five years after closing of the acquisition.

The BW Group operations include a sawmill in Cross City, Florida (the “Suwannee Mill”) and in Glenwood, Arkansas (the “Caddo River Mill”), which both primarily produce Southern Yellow Pine softwood lumber and specialty products. The Suwannee Lumber Mill and Caddo River Mill each have an annual dimension lumber capacity of 185 million board feet on a two-shift basis. Both the Suwannee Mill and Caddo River Mill have had significant modernization capital projects in recent years.

The completion of this transaction is subject to the satisfaction of customary closing conditions, including regulatory consents and approvals and financing. In connection therewith, the Company has received from a U.S. bank a commitment for a new credit facility in the amount of US\$ 220.0 million with a term of five years to partially finance the acquisition, replace its current facility and for general working capital (the “Credit Facility”). We are also reviewing other supplemental funding for the acquisition.

The acquisition will be financed in part from the Credit Facility, the issuance of common shares to the Vendors, the issuance of share purchase warrants, and other supplemental sources currently under review.

The transaction is anticipated to close in or before the third quarter of 2018.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company’s critical accounting estimates during the quarter ended March 31, 2018. Conifex’s critical accounting estimates are described in its MD&A for the year ended December 31, 2017, filed under the Company’s profile on SEDAR at www.sedar.com.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2018, we adopted IFRS 15, *Revenue from Contracts with Customers*, using the full retrospective method. The new standard for revenue replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and the related interpretations. The standard provides a new framework to determine the timing of revenue recognition and the measurement of revenue. The adoption of this standard had no significant impact on our condensed consolidated interim financial statements.

Effective January 1, 2018, we adopted IFRS 9, *Financial Instruments*. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard includes amended guidance for the classification and measurement of financial assets. It also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management and contains a new impairment model which could result in earlier recognition of losses. The adoption of IFRS 9 had no significant impact on our condensed consolidated interim financial statements.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

We expect our consolidated financial statements will be impacted by the recognition of new assets and liabilities for our operating leases. We are in the process of assessing the quantitative impact of adoption of this new standard on our consolidated financial statements. As of December 31, 2017, the future aggregate minimum lease payments under non-cancellable operating leases were \$7.35 million.

RISKS AND UNCERTAINTIES

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

OUTSTANDING SECURITIES

As at May 14, 2018, the Company had 26,469,831 issued and outstanding common shares, 100,000 options granted, and 1,124,895 long-term incentive plan awards.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the period covered by this report, there have been 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.