# CanBio Bioenergy Network Conference,

CONIFEX

May 11 – 12, 2011
Vancouver, BC

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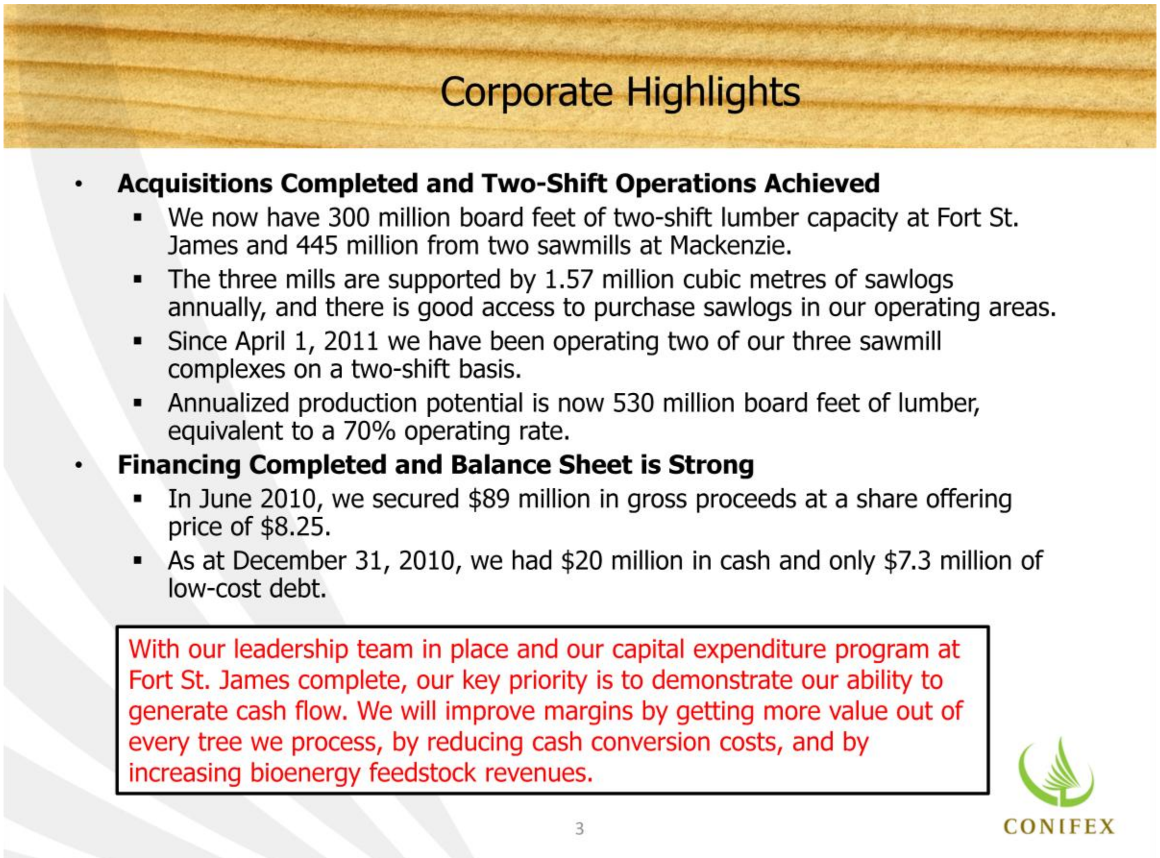
**Introduction**

Conifex Timber Inc. is a relatively new participant in the Interior BC forestry and sawmilling sector. We completed our second acquisition and our $89 million public offering in June of last year.




We operate two sawmill complexes in the northern Interior region of British Columbia with 745 million board feet of annual lumber capacity. Our operations are supported by a world-class fibre basket with annual harvest rights to 1.57 million cubic metres of sawlogs, along with good access to purchased fibre.

We successfully modernized and upgraded the lumber drying, finishing and grading facilities at our mill at Fort St. James earlier this year for $30 million. We now operate this mill and one of our two Mackenzie mills on a two-shift basis.

**Bioenergy Projects are of Strategic Importance**

With the time we have available to us today, I would like to outline the strategic benefits available to Conifex stakeholders from optimizing our bioenergy opportunities. Besides adding a new source of predictable cash flow to our company, our bioenergy initiatives are perfectly aligned with provincial policy objectives directed towards generating clean, renewable energy; reducing greenhouse gases through carbon sequestration; and increasing and stabilizing the employment base in our home province.

## Corporate Highlights

- **Equity Base**
  - Our 15.7 million (17 million fully diluted) shares trade under the symbol CFFX.
  - Associates of Chinese steel company – Heibei Wenfeng Industrial Group – are our single largest shareholder with a 20.6% interest on a fully diluted basis.
- **Bioenergy Project Announced**
  - We initiated a bioenergy cogeneration project in Mackenzie with production scheduled for the second half of 2012 at a cost of approximately $50 million.
  - We have ordered a large, new 36 MW/h steam turbine and generator to replace the existing 13.8 MW/h turbine at the site.
  - We will consume a portion of our 600,000 ODT annual capacity of residual chip and bioenergy feedstock production meeting our own electricity needs at Mackenzie and selling the balance of the power we produce to BC Hydro.
- **Transition Largely Complete**
  - Our transition from a "project" company to an operating company is well advanced, paving the way for us to report financial results in line with our peers during the second half of 2011.

We know what we need to do to be a top-quartile performer, and we are taking action to achieve this ranking.

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**We Are Capitalizing on Existing Infrastructure**

One reason for adding bioenergy to the Conifex portfolio is that we already have the roads, equipment and transportation systems to collect, transport and sort biomass materials. Our biomass feedstock procurement advantage partly arises from the fact that nearly 10,000 kilometres of access roads are maintained and/or monitored by Conifex staff and contractors in our fibre supply areas. At Mackenzie, our lake transportation and dewatering equipment enables us to extend our access to sawlogs and bioenergy fibre on a cost-effective basis. Factors such as these give us a competitive advantage over independent biomass producers who would have to secure forestry staff and invest heavily infrastructure to enter the biomass feedstock procurement business.

The second reason for adding bioenergy to the Conifex portfolio is our desire to make good use of the power boiler and ancillary equipment included in the package of assets we purchased at Mackenzie last year. Since the technology for using steam to convert woody biomass into electricity has been established for decades, and since no major changes are expected in biomass power generation technologies, these energy-related assets provide a good foundation to host the production of bioelectricity.


Against this background, we recently announced that these acquired assets form the base for our new Bioenergy Project at Mackenzie. Our intention is to use our sawmill residuals and harvest waste as feedstock to produce dependable, cost-effective and environmentally responsible electricity utilizing infrastructure and technology with proven past performance.

It is generally believed that the efficient scale for producing biomass electricity leads to plants in the 20 MW/hr to 50 MW/hr range. We intend to increase the capacity of our Mackenzie facility from 13.8 MW/hr presently to the midpoint of the above range – around 36 MW/hr -- at a total cost of approximately $50 million. This capital expenditure estimate is preliminary, but the costs of both expanding and improving the efficiency of the plant will be included in our final determination of capital costs.[1] We have committed $10.5 million to purchase a new steam turbine generator and related equipment.

At the PricewaterhouseCoopers Forest Industry Conference held in Vancouver two years ago, reference was made to a case study for a 30 MW/hr greenfield plant being built in the Interior Region of BC for a capital cost of $120 million. We aim to have a fully competitive, long-lived plant in place for approximately $50 million, less than one-half of the cost of a new facility.

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[1] Our modernized and expanded plant will be designed to provide flexibility in the event that fluctuations in fuel quality and sources develop in the future. We are also giving proper consideration to other key technological factors such as emission removal, steam parameters and lifetime operating and maintenance costs as part of our engineering design work on our Mackenzie site.

**Combined Heat and Power (CHP) Synergies Available to Conifex**

Woody biomass can be used to generate heat or electricity solely, or in a combined heat and power (CHP) plant or cogeneration facility. CHP plants have greater relative energy efficiency in converting biomass to useable energy. At both Fort St. James and Mackenzie, we have a need for heat to dry the lumber we produce at each site. We also have plans to host pellet production at both sites. By locating bioelectricity facilities adjacent to our dry kilns and pellet facilities, we can supply heat to kiln dry our lumber and to condition pellet feedstock, thereby making good use of the surplus process steam produced at our cogeneration facilities.

Studies by the Forest Products Association of Canada concluded that investment returns in the bioenergy sector are highest when large volumes of reasonably priced feedstock are available and when the new facilities can be integrated into traditional businesses. This is the precise opportunity we intend to exploit at each of Mackenzie and Fort St. James.

**Strong Fibre Support for Operations**

Conifex differs from many other solid wood products producers in the central Interior Region of BC in the extent to which our converting facilities are supported by world-class fibre baskets. Our more northerly location means that we have more spruce and balsam in the standing timber inventory in our sawlog supply areas, and less pine, the specie at risk due to the MPB epidemic. We also have good opportunities for open market purchases of sawlogs in the two fibre surplus regions where we operate. We therefore expect to maintain capacity operations producing a full range of sizes and grades of lumber in the future, even after the MPB-related harvest reductions come into effect over the next several years.

The British Columbia Ministry of Forests and Range has considered available forest-based biomass and existing usage in British Columbia. The Ministry has classified certain Designated Areas in the Province to be more promising in terms of their potential to host new biomass projects. We are pleased that Mackenzie and Fort St. James are both included on the list of Designated Areas.

**We Produce Large Volumes of Bioenergy Feedstock**

Companies like Conifex produce a huge amount of biomass fibre. Approximately one-half of the fibre contained in a typical sawlog ends up as lumber, and the other half ends up as bark, wood chips, sawdust, and planer shavings. These co-products from manufacturing lumber, in aggregate, amount to approximately eight-tenths of a tonne of residual fibre for every thousand board feet of lumber we produce. With total two-shift lumber capacity of 745 million board feet, Conifex has the potential to produce 600,000 ODTs of residual fibre on an annual basis. This residual bioenergy feedstock volume is already available to us, before giving effect to additional volumes we will be able to harvest and deliver from our tenures when our new bioenergy facilities are operational.


The sawlogs required to produce 1000 board feet of lumber, the lumber actually produced, and the residual fibre produced as by-products are illustrated in the above slide.

In our opinion, sawmill residues and other biomass sources with competitive procurement costs will figure prominently in the growth and development of bioelectricity and wood pellet businesses in BC.  Unlike other operators in the Interior Region of BC, Conifex has not yet entered into long-term commitments for all of the sawmill residuals and residues we produce.  We are not aware of other players who can provide biomass feedstock on a large scale similar to what we can.

At Conifex, we truly believe that the large volume of presently uncommitted sawmill residues under our control is a source of competitive advantage. It will propel, not impede, our future success. [2]

**Our Rationale for Focusing on Bioenergy Opportunities**

With the fibre we have available, and the infrastructure we already have in place, it makes good business sense for us to continue our hard work to optimize the bioenergy potential to our company. Our key objective is to position Conifex to generate solid cash flows even when lumber markets are depressed, and the best way for us to achieve this objective is to unlock the full revenue potential of the biomass fibre we already handle in our harvesting and converting operations.

Exploiting our bioenergy potential is the best way we know to:

- Live up to the name we established for our company – Conifex – derived from combining the words "Conifer" and "Excellence".
- Distinguish our company from the other well-financed and efficient lumber producers operating in the Interior Region of BC. To my knowledge, we are the only forestry and sawmilling company which has a dedicated bioenergy segment for financial reporting purposes;
- Provide continuity of operations and employment for our existing hard working, safety-minded employees in forest dependent communities, create new employment opportunities in bioenergy and additional employment in organizations which provide support and other services to Conifex;
- Achieve full and fair value for the sawmill and logging residuals we currently produce, as well as other fibre we have potential to access;
- Move Conifex to the lowest quartile on the industry cost curve, enabling us to compete head on with the best companies the North American lumber industry has to offer; and
- Broaden and deepen the healthy working relationship we already enjoy with the First Nations in our local operating areas. First Nations are fellow shareholders in Conifex. We already have mutually advantageous commercial arrangements in place, and the potential for others now that our sawlog requirements are increasing as we ramp up lumber production. [3]

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[2] While incentives and policies may promote biomass electric and wood pellet plant construction, the pace and penetration of biomass power plants are controlled significantly by the certainty and cost of fuel supply. Fibre is such a large portion of the cost of operations that it is looked at very carefully by lenders and investors.

[3] Conifex has a huge commonality of interest with First Nations -- we both benefit by enhancing the value of the softwood fibre we have contractual rights to access. We have identified some prospective new initiatives we wish to explore with First Nations on a priority basis as soon as key components of our bioenergy strategy are defined and settled.

**Residual Fibre Value Differentials Impact Strategy**

Although residual chips have potential use as a feedstock for wood pellet and bioelectricity production, most residual chips in the Interior region of BC are sold to pulp mills. Pulp producers pay higher prices for chips than bioenergy. We expect NBSK pulp prices to remain at or near the upper end of their historic range for the next few years, so it follows that chip prices should also remain firm over this period. Looking forward, we anticipate we will continue to sell most of the residual chips we produce to BC pulp mills or to other pulp mills through the export market.

Although pellet producers finally are beginning to pay up for sawdust and planer shavings, they continue to pay nominal prices for bark.[4] Because bark is viewed as a less desirable feedstock, it typically commands a lower price than we receive for the sawdust and shavings we sell to pellet producers.

The best outcome for Conifex is achieved if we produce power and pellets at each of our locations, and supply the most suitable and cost-effective fibre to the appropriate facility. We will use our lowest valued residual – bark – as the primary feedstock for the production of bioelectricity. This frees up our higher-valued sawdust and shavings for sale to (independent or joint-venture) wood pellet producers. We are able to access sufficient volumes of sawmill residues and woody biomass from other sources to support these complimentary biomass-consuming activities at both of our northern Interior BC locations. This approach makes more effective use of the provincial forest base.

**Strong Alignment with Provincial Policy Objectives**

Our progressive provincial government views the bioenergy sector as being capable of meeting a variety of public policy and economic goals. Consider these excerpts from BC's Bioenergy Strategy:

> "The BC Bioenergy Strategy sets us on a path to diversify rural economies and turn adversity into opportunity by recovering maximum value from all our forests and creating new economic opportunities for mountain pine beetle damaged timber through conversion into bioenergy."
>
> "The bioenergy we generate from our abundant resources in BC can help to meet greenhouse gas reduction targets at home and in other jurisdictions, creating enduring economic benefits."

Premier Clark recently announced the new provincial cabinet in BC will focus on "creating jobs and building a strong economy because that is the single most important thing we can do to support families and ensure that we can invest in critical services like health and education."

A representative of the BC Ministry of Forests provided statistics to us indicating that Mackenzie and Fort St. James BC were the two most forest-dependent communities in the

[4] Bark typically has higher ash content and often includes contaminants (such as dirt and rocks), both of which affect the performance of pelletizing equipment.

entire province. We witnessed the pain both communities suffered in the 2007 – 2010 period when the pulp and lumber dependent plants in these communities were idled. Clearly, these two communities will benefit if new revenue streams are available to support the lumber and pulp focused forest products operations they host.[5]

Pat Bell and Steve Thomson, and their strong support teams in their respective government ministries, are working hard to strengthen the BC forest sector by stimulating the growth and development of the bioenergy sector. Bioenergy can also play a key role in terms of minimizing the adverse consequences of the sawlog harvest reductions expected in the interior region of BC now that the mountain pine beetle has degraded a huge portion of the standing timber inventory. Once our bioenergy initiatives are in place, we will be able to increase the physical volume of fibre removed from our logging sites. The revenues available to us from the sale of power and pellets will mean we can afford to harvest and consume fibre that has traditionally been left in the forest because it was perceived to be uneconomical based solely on lumber and chip values.[6]

**Fibre Segmentation and Revenue Optimization at Conifex**

Dramatic changes are now occurring in fibre quality and availability brought on by the MPB epidemic and in BC lumber demand patterns reflecting the emergence of a market for BC lumber in China. Furthermore, bioenergy opportunities are now available which did not exist a decade ago. Earlier in these remarks, we commented on the benefits of segmenting our residual fibre volumes, and the ability we have to make more effective use of the softwood resources in our operating areas.

It also makes good sense to segment our log supply. Going forward, our timber tenures in the Interior Region of BC will provide the most value for our stakeholders if we build our harvesting and conversion activities recognizing that our log supply is comprised of distinct components:

- The top-end of our log pile is ideally suited to be converted into premium-priced lumber for sale to Japan, and premium-priced lumber for sale in North America. At present, less than 10% of the lumber produced in the interior region of BC finds its way to Japan – the market consistently providing the highest mill net prices for lumber. With our fibre base, and with the improvements we have made which enable us to maximize the portion of high value lumber we produce, we intend to produce and sell more than 20% of our production to Japan.

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[5] The bioenergy initiatives Conifex intends to complete will stabilize these two forest dependent communities by:

- Ensuring continual and rewarding employment in the forestry sector.
- Diversifying local economies through the creation of new jobs and careers in bioenergy and, in the future, biofuels production

[6] We will also be able to assist in providing a positive response to the MPB infestation resulting in:

- Abatement of the significant and growing fire hazard in BC through harvesting and removal of dead timber and residues;
- Prompt reforestation to return MPB-affected stands to a healthy, vibrant state; and
- Enhanced carbon sequestration by converting dead forests to living ones.

- The bottom-end of our log pile is ideally suited to supply residual chips to pulp mills and low-grade products in demand by lumber remanufacturers in China. We expect firm demand and prices for our low-grade lumber as BC sawmillers continue to gain market share from other suppliers meeting China's growing softwood deficit. BC's lumber shipments to China have exploded, and should exceed 3 billion board feet this year, more than 15 times the 200 million board feet shipped in 2003. I have made two trips to Russia and China in the past nine months, and based on everything I have seen, BC will continue to gain market share in lumber in China.


- The middle portion of our log pile is ideally suited to supply North American construction lumber. For most interior BC operators, the US market accounted for 75% of shipments until a few years ago. A great deal of uncertainty exists regarding the shape and speed of the recovery in US residential construction activity, and therefore the levels of North American lumber demand and prices. By directing a majority of our lumber to the Japanese and Chinese markets, and by adding bioenergy revenue to our income statement, we will be more insulated from further disappointments in US housing starts.

- The remainder of our log pile is represented by the fibre which would have previously been viewed as uneconomic to harvest and deliver to a converting facility. For the reasons we outlined earlier, this "new" fibre will be utilized in our bioenergy segment.

**Conclusion**

I hope that my remarks today help illustrate how the evolving bioenergy market and other factors are changing the traditional operating environment for the Interior BC forest industry.

We trust you agree with us that Conifex is on the right track, that our business plan makes sense, and that there are huge benefits to stakeholders from the successful execution of our plans to invest in the bioenergy sector. We will transition from being a lumber producer to a softwood fibre management company, helping overcome the growing fibre deficit in Asia, fueling the growth and development of the renewable energy sector in BC, and satisfying the demand for construction products in North America.

On behalf of all of the hard-working employees we are proud to call our partners in Conifex, and on behalf of all the suppliers and other stakeholders contributing to our success, we thank you for taking time to hear how Conifex is approaching the forest products business in the Interior region of BC.