



**CONIFEX TIMBER INC.
FIRST QUARTER 2019**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 13, 2019

This interim Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Conifex Timber Inc. (the "Company", "Conifex", "us", "we", or "our"), on a consolidated basis, for the quarter ended March 31, 2019 relative to the quarters ended December 31, 2018 and March 31, 2018. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the quarters ended March 31, 2019 and 2018, as well as the 2018 annual MD&A and the December 31, 2018 audited consolidated financial statements and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

In this interim MD&A, reference is made to "EBITDA" and "adjusted EBITDA". EBITDA represents earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated to exclude unusual items that are not ongoing and do not reflect ongoing operations of the Company. Adjusted EBITDA excludes foreign exchange gains or losses on long-term debt. The Company discloses EBITDA and adjusted EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA and adjusted EBITDA are non-GAAP measures, they may not be comparable to EBITDA and adjusted EBITDA calculated by others. In addition, EBITDA and adjusted EBITDA are not substitutes for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

On March 26, 2019, we entered into a purchase agreement for the sale of our wholly-owned subsidiary, Lignum Forest Products LLP ("Lignum") for an aggregate purchase price of US\$11.5 million, subject to customary working capital adjustments. As required under IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations, the operating results previously reported for Lignum have been restated as discontinued operations for the current and comparative periods and separated from the Company's continuing operations. Unless otherwise indicated, our discussion and analysis reflects the results of continuing operations, and current and comparative periods have been restated accordingly. We have provided restated key financial information on a quarterly basis for the most recently completed eight quarters in the Selected Quarterly Financial Information section of this interim MD&A. For further information relating to Discontinued Operations, please refer to Note 7 to the unaudited condensed consolidated interim financial statements for the quarters ended March 31, 2019 and 2018.

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

FORWARD-LOOKING STATEMENTS

This interim MD&A contains certain forward-looking information that reflects our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: the growth and future prospects of our business; our results of operations and performance; the use and

availability of credit facilities or proceeds therefrom; our level of liquidity and our ability to service our debt; our perceptions of the industries and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our ability to supply our manufacturing operations with wood fibre and the cost of wood fibre; our expectation for market volatility associated with the softwood lumber dispute with the US; that we could be negatively impacted by the imposition of duties or other protective measures on our products, such as anti-dumping duties or countervailing duties on softwood lumber; our expectations for US dollar benchmark prices; potential acquisitions or sale of any business or asset; commitments to additional capital projects and benefits that may accrue to the Company as a result of certain capital expenditure programs; continued positive relations with Aboriginal groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; our expectations concerning the renewal of our collective labour agreement; the anticipated benefits, cost and timing of operations of our mills in the US South.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; that the US housing market will continue to improve; that there will be no unforeseen disruptions affecting the operation of our power generation plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business.

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 28, 2019 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

RECENT DEVELOPMENTS

Discontinued Operations – Sale of Lignum Forest Products

On March 26, 2019, we entered into a purchase agreement for the sale of our wholly-owned subsidiary, Lignum for an aggregate purchase price of US\$11.5 million, subject to working capital adjustments. As required under IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, the operating results previously reported for Lignum have been restated as discontinued operations for the current and comparative periods and separated from the Company's continuing operations. Unless otherwise indicated, our discussion and analysis reflects the results of continuing operations, and current and comparative periods have been restated accordingly. We have provided restated key financial information on a quarterly basis for the most recently completed eight quarters in the Selected Quarterly Financial Information section of this interim MD&A. For further information relating to Discontinued Operations, please refer to Note 7 to the unaudited condensed consolidated interim financial statements for the quarters ended March 31, 2019 and 2018.

The sale of Lignum was completed subsequent to our quarter end, on April 1, 2019. The proceeds of approximately US\$11.5 million were utilized to repay a portion of our revolving credit facility.

Reduced Operating Rates at BC and US Mills

Our lumber segment operating results were hampered by lower operating rates which resulted in higher unit cash conversion costs at our Fort St. James, BC mill (the "FSJ Mill") and our El Dorado and Glenwood, Arkansas mills in the first quarter of 2019 and the fourth quarter of 2018.

In the fourth quarter of 2018, we curtailed sawmill operations at the FSJ Mill for a total of approximately four weeks due primarily to market conditions reflecting lower lumber prices and elevated log costs. The lower operating rates at the FSJ Mill resulted in approximately 23 million board feet of reduced production in the fourth quarter of 2018.

In November 2018, we announced the temporary reduction of operating capacity at the FSJ Mill starting January 1, 2019, with the reduced operating format expected to continue until about mid-2019. In January 2019, we announced the temporary curtailment of sawmill operations at the FSJ Mill for three weeks in February. The temporary change in operating format and the February curtailment were due primarily to continued high log costs and adverse lumber market conditions, exacerbated by the ongoing imposition of softwood lumber duties. We expect the curtailments to result in an estimated 28% reduction in lumber production from our BC mills for the first six months of 2019.

Subsequent to quarter end, on May 1, 2019, we announced the temporary curtailment of operations at our FSJ Mill for four weeks and our Mackenzie, BC mill for three weeks in May 2019. The temporary curtailment is expected to further reduce lumber output from our BC mills by approximately 24 million board feet. We continue to monitor lumber market conditions on an ongoing basis and intend to maintain operating flexibility to respond appropriately. We expect that a majority of our lumber production will be sourced from the lower cost US South supply region during the first half of 2019.

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

Our US mills produced Southern Yellow Pine ("SYP") lumber at an annualized run rate of approximately 418 million board feet in the first quarter of 2019 and 380 million board feet in the fourth quarter of 2018. Production levels in the first quarter of 2019, on an annualized basis, represented approximately 89% of targeted levels for 2019 and 76% of two-shift dimension lumber production capacity of 550 million board feet.

We are encouraged by the improved operating rates. However, overall operating results from our Arkansas mills continue to be hampered by higher operating costs related to the additional costs and ramp up of second shifts without the attendant benefit of full two-shift productivity. We expect unit cash conversion costs to normalize in the second half of 2019 as operating rates approach targeted levels.

BC Government Forestry Policies

The BC Provincial Government (the "Province") has introduced policy initiatives that will affect the BC forest sector.

On April 1, 2019, the Province announced Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister's ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*. If passed in its current form, the new legislation will require approval from the Minister before disposal or transfer of a tenure agreement to a third party. The legislation will enable the Minister to refuse to approve a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals and the acquisition and disposition of rights to harvest timber, or the Minister may otherwise place conditions on the approval.

We cannot reasonably assess the impact that these policy initiatives may have on our operations at this time.

Softwood Lumber Dispute Update

On April 9, 2019, a World Trade Organization (“WTO”) Panel ruled on certain matters relating to the application of softwood lumber anti-dumping (“AD”) duties, concluding that the US violated international trade rules in the way it calculated anti-dumping duties. Included in the ruling, however, the WTO Panel allowed the US to use “zeroing” in its calculation of AD duties, which Canada has appealed. The practice of zeroing had previously been disallowed by the WTO with regard to softwood lumber. The final determination of AD duties is subject to additional appeals from both the US and Canada.

Our operating results include countervailing (“CV”) and AD duty deposit expense totaling \$3.8 million in the first quarter of 2019, \$3.7 million in the fourth quarter of 2018 and \$6.2 million in the first quarter of 2018, based on CV duty rate of 14.19% and an AD duty rate of 6.04%.

The duty rates are subject to change based on administrative reviews and available appeals. Notwithstanding the existing deposit rates, Conifex’s final liability for the assessment of CV and AD duties will not be determined until each annual administrative review process and any related appeal process is completed. Cumulative duties of approximately US\$29.1 million paid by Conifex since the inception of the current trade dispute remain held in trust by the US pending the First Administrative Review and conclusion of all appeals of US decisions.

Collective Agreement with the United Steelworkers (“USW”)

Our collective labour agreement with the USW union, which represents our hourly employees at the FSJ and Mackenzie mills, expired on June 30, 2018. Conifex is a member of the Council on Northern Interior Forest Employment Relations (“CONIFER”), which represents 13 regional sawmills in the USW negotiations. CONIFER and the USW reached a Memorandum of Agreement for a new five-year term in February 2019 with ratification of the agreement at each member mill expected in the first half of 2019. Any new collective labour agreement is expected to be retroactive to July 1, 2018.

SUMMARY OF OPERATING RESULTS

Consolidated Net Earnings

During the first quarter of 2019, we incurred a net loss of \$11.9 million, or \$0.25 per share, compared to a net loss of \$23.0 million or \$0.49 per share in the previous quarter and net income of \$2.5 million or \$0.10 per share in the first quarter of 2018. The following table summarizes our net operating earnings or loss on a per segment basis.

Selected Financial Information (1)

(millions of dollars except share and per share amounts and exchange rate information, unaudited)	Q1 2019	Q4 2018	Q1 2018
Sales by Segment			
Lumber	125.5	128.2	85.8
Bioenergy	8.2	8.0	7.5
	133.7	136.2	93.3
Operating Earnings (Loss) by Segment			
Lumber	(13.5)	(15.8)	6.0
Bioenergy	3.0	3.0	2.0
Corporate and other unallocated items	(1.9)	(2.5)	(1.7)
	(12.4)	(15.3)	6.3
Adjusted EBITDA by Segment			
Lumber	(6.0)	(7.9)	6.6
Bioenergy	4.7	4.7	3.6
Corporate and other unallocated items	(1.4)	(4.0)	(2.0)
	(2.7)	(7.2)	8.2
Net income (loss) from continuing operations	(12.0)	(24.0)	1.6
Net income from discontinued operations	0.2	1.0	1.0
Net income (loss) (2)	(11.9)	(23.0)	2.5
Basic and diluted earnings (loss) per share			
Continuing operations	(0.25)	(0.51)	0.06
Discontinued operations	-	0.02	0.04
Total basic and diluted earnings (loss) per share	(0.25)	(0.49)	0.10
Shares outstanding - weighted average (millions)	46.6	46.6	26.4
Average exchange rate - US\$/Cdn\$ (3)	0.752	0.757	0.791

Reconciliation of adjusted EBITDA to Net Income (Loss)

Net income (loss) from continuing operations	(12.0)	(24.0)	1.6
Add: Finance costs	6.1	6.5	1.5
Amortization	9.2	9.2	4.4
Deferred income tax expense	(1.5)	(10.2)	0.7
EBITDA from continuing operations (4)	1.8	(18.5)	8.2
Add: Foreign exchange (gain) loss on long-term debt	(4.5)	11.3	-
Adjusted EBITDA from continuing operations (5)	(2.7)	(7.2)	8.2

(1) Unless otherwise noted, financial information reflects results of continuing operations. See "Recent Developments – Sale of Lignum Forest Products" above for additional information.

(2) May not total due to rounding.

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

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

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

Continuing Operations

Our revenues totaled \$133.7 million in the first quarter of 2019, a 2% decline from the prior quarter and an improvement of 43% over the same quarter last year. Compared to the first quarter of 2018, revenue growth was largely derived from the addition of our US mills and partially offset by lower shipments and unit sales realizations from our BC mills. Bioenergy segment revenues were generally consistent with the previous quarter and improved by 9% over the first quarter of 2018.

We recorded operating losses of \$13.5 million in the lumber segment in the first quarter of 2019 and \$15.8 million in the previous quarter and operating earnings of \$6.0 million in the first quarter of 2018. Lumber segment operating results included CV and AD duties expense of \$3.8 million in the first quarter of 2019, \$3.7 million in the fourth quarter of 2018 and \$6.2 million in the first quarter of 2018. The bioenergy segment contributed operating earnings of \$3.0 million in the first quarter of 2019 and in the previous quarter, an improvement of 50% over the first quarter of 2018. Corporate costs of \$1.9 million represented a reduction of \$0.6 million from the previous quarter and an increase of \$0.2 million over first quarter of 2018.

Net income from continuing operations included a foreign exchange gain on long-term debt of \$4.5 million in the first quarter of 2019 and a loss of \$11.3 million in the previous quarter. Finance costs were \$6.1 million in the first quarter of 2019, \$6.5 million in the previous quarter and \$1.5 million in the first quarter of 2018. We recognized deferred income tax recovery of \$1.5 million in the first quarter of 2019 and \$10.2 million in the previous quarter and deferred income tax expense of \$0.7 million in the same quarter last year.

Adjusted EBITDA was negative \$2.7 million in the first quarter of 2019. The improvement of \$4.5 million over the fourth quarter of 2018 was attributable to an improvement in lumber segment EBITDA of \$1.9 million and in corporate and unallocated items EBITDA of \$2.6 million. Compared to the first quarter of 2018, bioenergy segment EBITDA improved by \$1.1 million and lumber segment EBITDA declined by \$12.6 million.

Discontinued Operations

Operating income from discontinued operations was \$0.7 million in the first quarter of 2019, \$0.2 million in the previous quarter and \$0.6 million in the first quarter of 2018.

Net income from discontinued operations was \$0.2 million in the first quarter of 2019 compared to \$1.0 million in the previous quarter and \$1.0 million in the first quarter of 2018. Net income from discontinued operations included foreign exchange translation loss of \$0.4 million in the first quarter of 2019 and foreign exchange translation gains of \$0.9 million in the previous quarter and \$0.5 million in the first quarter of 2018. For further information relating to Discontinued Operations, see "Recent Developments – Sale of Lignum Forest Products" above, and please refer to Note 7 to the unaudited condensed consolidated interim financial statements for the quarters ended March 31, 2019 and 2018.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT (1)

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)	Q1 2019	Q4 2018	Q1 2018
Sales -Lumber - Conifex produced	96.5	98.5	70.2
- Lumber - wholesale	11.7	10.2	4.6
- By-products	14.1	15.7	6.3
- Logistics services	3.2	3.8	4.7
Total Sales	125.5	128.2	85.8
EBITDA (2)	(6.0)	(7.9)	6.6
Amortization	7.5	7.5	2.8
Gain (loss) on derivative financial instruments	-	0.4	(2.2)
Operating income (loss)	(13.5)	(15.8)	6.0

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

Production - WSPF lumber (MMfbm)	73.5	93.5	123.7
Production - SYP lumber (MMfbm)	104.5	95.1	-
Shipments - WSPF lumber (MMfbm)	78.7	99.9	112.7
Shipments - SYP lumber (MMfbm)	105.3	94.7	-
Shipments - wholesale lumber (MMfbm)	16.6	12.8	7.4
Average exchange rate - US\$/Cdn\$ (3)	0.752	0.757	0.791
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$372	\$327	\$514
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (5)	\$495	\$432	\$650
Average SYP 2x4 #2&Btr lumber price (US\$) (6)	\$402	\$419	\$540
Average SYP 2x4 #2&Btr lumber price (Cdn\$) (5)	\$534	\$553	\$683

(1) Financial information reflects results of continuing operations. See "Recent Developments – Sale of Lignum Forest Products" above for additional information.

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

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

(4) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.

(5) Average SPF 2x4 #2&Btr and SYP Westside 2x4 #2 lumber prices (US\$) divided by average exchange rate.

(6) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.

Continuing Operations

The U.S. Census Bureau reported privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.19 million units over the first quarter of 2019, a level which represents an increase of approximately 4% over the previous quarter and decline of 9% over the first quarter of 2018. Single-family housing starts accounted for 71% of total first quarter 2019 US housing starts, representing an increase in units of 6% over the previous quarter and a decrease of 4% over the first quarter of 2018. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US\$372 during the first quarter of 2019, an improvement of 14% over the previous quarter and a decline of 28% over the first quarter of 2018.¹ Although temporary production curtailments at a number of BC mills contributed to a quarter-over-quarter increase in WSPF prices, benchmark prices remained considerably weaker than the levels achieved in

¹ As quoted in Random Lengths Publications Inc.

the first quarter of 2018 when transportation challenges and stronger demand resulted in significantly higher WSPF prices. Benchmark prices for SYP Westside averaged US\$402 during the first quarter of 2019, a decline of 4% from the previous quarter and 26% from the first quarter of 2018. Several industry analysts have attributed the lower SYP lumber prices to a historically wet winter which suppressed housing construction activity and lumber demand across the US South.

The US dollar averaged US\$0.752 for each Canadian dollar during the first quarter of 2019, which represented a modest weakening of the Canadian dollar compared to the previous quarter and weakening of 5% compared to the same quarter last year². Canadian dollar-denominated benchmark WSPF prices, which averaged \$495 in the first quarter of 2019, improved by 15% or \$63 from the previous quarter and declined by 24% or \$155 from the first quarter of 2018.

The US and China remained the principal markets for our BC mills and accounted for over 73% of total lumber shipments in each of the comparative quarters while shipments to Japan remained steady at approximately 6%. Shipments to other offshore markets averaged 3% of our total volumes in the comparative quarters. The balance of our lumber shipments were directed to the domestic Canadian market.

Revenues from Conifex produced lumber were \$96.5 million in the first quarter of 2019 and represented a 2% decline from the previous quarter. Compared to the previous quarter, a decline in shipment volumes of 5% outweighed an improvement in sales realization of 4%. Shipments from our BC mills declined by 21% and mirrored lower production levels resulting from the change in operating format and temporary curtailment at the FSJ Mill. Shipments from the US mills increased by 11% and reflected similar improvements in production volumes. Compared to the first quarter of 2018, revenue growth of 37% was primarily attributable to the addition of shipments from the US mills, partially offset by 30% lower shipment volumes from our BC mills and a decline in sales realizations due to weaker lumber prices.

Wholesale lumber revenues increased by 15% over the previous quarter and more than doubled compared to the same quarter last year. Our wholesale lumber shipments and revenues can fluctuate widely from time to time depending on market conditions and opportunities for profitable trades.

A decline in revenues from wood chips and other residuals of 10% compared to the previous quarter was mainly due to lower chip volumes and unit prices at our BC mills partially offset by increased shipments at our US mills. The revenue growth in residuals of 124% over the same quarter last year largely reflected the addition of shipments from the US mills and lower volumes and higher unit prices from our BC mills.

As discussed above, primarily in response to continued high log costs and lumber market conditions, we reduced the operating capacity at our FSJ Mill on a temporary six-month basis effective January 1, 2019. We also temporarily curtailed production at the FSJ Mill for a four-week period in the fourth quarter of 2018 and a three-week period in the first quarter of 2019.

Lumber production at our BC mills totalled approximately 74 million board feet during the first quarter of 2019 which represented an annualized operating rate of 54% compared to 69% in the previous quarter and 92% in the first quarter of 2018. Production at our US mills of approximately 105 million board feet represented growth of 10% over the previous quarter and contributed 60% of overall production. First quarter 2019 production represented an annualized operating rate of 76% based on two-shift dimension lumber production capacity of 550 million board feet. We continue to ramp up second shift production added in August 2018 at our Arkansas mills. We expect further productivity and unit cost improvements over the next several quarters at both locations.

Unit log costs were relatively flat quarter-over quarter and increased by 14% over the same quarter last year at our BC mills. The higher log costs were mainly attributable to higher market-based stumpage and purchased log costs. Unit log costs at our El Dorado and Cross City mills were generally consistent with

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

the prior quarter. We experienced higher unit log costs and periodic production disruptions at our Glenwood mill due to extremely wet weather conditions which constrained log availability and heightened local competition for logs in the first quarter of 2019 and the previous quarter.

Overall operating costs in the first quarter of 2019 and the previous quarter were challenged by the lower operating rates at our BC mills and the additional costs associated with ramping up second shifts at two of our US mills without the attendant benefit of higher productivity. We expect unit cash conversion costs to improve and normalize as we ramp up second shift production and approach targeted operating rates at our Arkansas mills. An increase in depreciation and amortization expense of \$4.7 million over the first quarter of 2018 was largely attributable to our expanded operations in the US South.

We recorded a positive inventory valuation adjustment of \$1.6 million in the first quarter of 2019 and inventory write downs of \$1.4 million in the previous quarter and \$0.6 million in the first quarter of 2018.

We expensed CV and AD duty deposits of \$3.8 million in the first quarter of 2019, \$3.7 million in the previous quarter and \$6.2 million in the first quarter of 2018. The duty deposits were based on a combined rate of 20.23%.

The lumber segment recorded operating losses of \$13.5 million in the first quarter of 2019 and \$15.8 million in the previous quarter and operating income of \$6.0 million in the first quarter of 2018. Compared to the previous quarter, lumber segment operating results were hampered by lower overall lumber shipments and operating rates, and higher unit operating costs at our BC mills, which outweighed the benefits of improved sales realization and a positive quarter-over-quarter variance in inventory valuation adjustments. Compared to the first quarter of 2018, lumber segment operating results were challenged by lower operating rates and higher unit operating and log costs at our BC mills, elevated operating costs at our Arkansas mills due to the ongoing ramp up of production, higher depreciation expense and lower sales realizations from our BC mills due to weaker lumber prices. These factors were partially offset by overall revenue growth from increased lumber and residual shipments, lower duty deposit expense and a positive inventory valuation adjustment.

We recorded a realized and unrealized gain on lumber futures contracts of \$0.4 million in the fourth quarter of 2018 and a loss of \$2.2 million in the first quarter of 2018.

Lumber segment EBITDA was negative \$6.0 million in the first quarter of 2019, an improvement of \$1.9 million over the previous quarter. Lumber segment EBITDA was \$6.6 million in the first quarter of 2018.

Bioenergy Segment

	Q1	Q4	Q1
(millions of dollars, other than statistical information, unaudited)	2019	2018	2018
Electricity sales under EPA - GWh	55.6	54.6	50.5
Electricity revenues	8.2	8.0	7.5
EBITDA	4.7	4.7	3.6
Amortization	1.7	1.7	1.6
Operating income	3.0	3.0	2.0

Our power generation plant at Mackenzie, BC (the "Mackenzie Power Plant") sold 55.6 gigawatt hours ("GWh") of electricity under our Electricity Purchase Agreement ("EPA") with BC Hydro in the first quarter of 2019, a level that was generally consistent with the previous quarter and represented approximately 101% of targeted operating rates. Revenues and operating costs were adversely impacted by an unplanned outage in the first quarter of 2018.

The effective power rate is highest during the first and fourth quarters of each year. Electricity revenues in the current quarter were \$8.2 million, an increase of 9% over the first quarter of 2018 due to higher operating rates. Modestly higher revenues were partially offset by increased operating costs and resulted in consistent operating income compared to the previous quarter. Compared to the first quarter of 2018, an improvement in revenues of \$0.7 million and in cash operating costs of \$0.4 million resulted in an increase in operating income of \$1.0 million.

Bioenergy segment EBITDA was \$4.7 million in the first quarter of 2019 and the fourth quarter of 2018, which represented an improvement of 31% over the first quarter of 2018.

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”. We expect BC Hydro to issue a dispatch order with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of approximately 52 days, encompassing the early May to June 30, 2019 period. In 2018, the Mackenzie Power Plant, among others, was dispatched for a period of 112 days, encompassing the mid-May to early September 2018 period. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. 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 \$1.9 million in the first quarter of 2019, \$2.5 million in the previous quarter and \$1.7 million in the first quarter of 2018. Corporate costs in the fourth quarter of 2018 included year end adjustments related to variable compensation.

Interest Expense and Finance Costs

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

Interest and finance costs totalled \$6.1 million in the first quarter of 2019, \$6.5 million in previous quarter and \$1.6 million in the first quarter of 2018. Interest expense in the first quarter of 2019 reflected higher interest rates compared to each of the comparative quarters resulting from recent amendments to the Credit Facility and included interest expense on leases related to the prospective adoption of IFRS 16 on January 1, 2019. Finance costs in the fourth quarter of 2018 included accelerated amortization of financing costs and marked to market interest payments totaling \$1.5 million related to the extinguishment of our then-existing Conifex Power term loan which was fully repaid. Compared to the first quarter of 2018, the increase in interest and finance costs was also attributable to increased borrowings to finance the purchase of the Cross City and Glenwood mills and expensing of borrowing costs related to the development of the El Dorado Mill which had been previously capitalized.

Loss on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business and to manage interest rate variability. Gains or losses on lumber derivative instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. Conifex does not presently use derivatives for trading or speculative purposes. We recorded losses on lumber derivative instruments of \$0.1 million in the first quarter of 2019 and \$2.2 million in the first quarter of 2018 and a gain of \$0.4 million in the fourth quarter of 2018.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of US dollar-denominated cash, working capital balances and revolving loan of Canadian operations to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The exchange rate for one Canadian dollar was US\$0.748 at March 31, 2019, US\$0.733 at December 31, 2018, and US\$0.776 at March 31, 2018³. We recorded a foreign exchange translation gain of \$0.5 million in the first quarter of 2019 and foreign exchange translation losses of \$1.4 million in the fourth quarter of 2018 and \$0.4 million in the first quarter of 2018.

We recognized a foreign exchange gain of \$4.5 million in the first quarter of 2019 and a foreign exchange loss of \$11.3 million on our US dollar term loan held by our Canadian entities due to the stronger quarter-over-quarter Canadian dollar at March 31, 2019 and weaker Canadian dollar at December 31, 2018 relative to the exchange rate when we completed the Credit Facility.

Foreign exchange differences for foreign operations with a functional currency that differs from the Company's presentation currency are recognized as other comprehensive income or loss and reflected in the statement of changes in equity. We recorded an after-tax loss of \$8.3 million in the first quarter of 2019 and an after-tax gain of \$21.0 million in the fourth quarter of 2018, to other comprehensive income.

Income tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. The Company recorded deferred income tax recoveries of \$1.5 million in the first quarter of 2019 and \$10.2 million in the fourth quarter of 2018 and a deferred income tax expense of \$0.7 million in the first quarter of 2018. As at March 31, 2019, the Company had recognized deferred income tax assets of \$3.4 million.

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

SUMMARY OF FINANCIAL POSITION

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

	Q1	Q4	Q1
(millions of dollars, unaudited)	2019	2018	2018
Cash	6.5	16.3	8.6
Cash - restricted	11.0	8.6	11.3
Operating working capital	65.4	87.0	81.0
Operating loans	-	-	(1.6)
Current portion of revolver and long-term debt	(84.3)	(46.4)	(5.9)
Assets held for sale (1)	18.5	-	-
Liabilities held for sale (1)	(4.2)	-	-
Net current assets	12.9	65.5	93.4
Long-term assets - goodwill	159.3	163.8	-
Long-term assets related to Mackenzie Power Plant	109.6	111.4	112.4
Long-term assets - lumber segment and corporate	301.7	302.0	198.2
	583.5	642.7	404.0
Non-interest bearing long-term liabilities	20.2	17.0	26.0
Long-term debt - Conifex Power term loan	64.9	63.4	60.3
Revolving credit facility	5.9	23.7	99.9
Long-term debt - other	172.3	198.5	5.3
Shareholders' equity	320.2	340.1	212.5
	583.5	642.7	404.0
Ratio of current assets to current liabilities	1.1	1.7	2.8
Net debt to capitalization	49%	47%	44%
Net debt to capitalization (2)	43%	42%	32%

(1) Assets and liabilities of discontinued operations have been reclassified as held for sale as at March 31, 2019. See "Recent Developments – Sale of Lignum Forest Products" above for additional information.

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

The ratio of current assets to current liabilities was 1.1:1 at March 31, 2019 compared to 1.7:1 at December 31, 2018. The quarter-over-quarter change was primarily attributable to the increase in debt repayments due within one year and classified as current.

The assets and liabilities of discontinued operations were reclassified as assets and liabilities held for sale as at March 31, 2019, and were recorded at the lesser of their carrying value amount and their fair value less cost to sell.

We manage capital with the objective of maintaining a strong balance sheet to adequately maintain capital resources to support our operations, sustain future development and facilitate access to capital markets at competitive rates. 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, 2019 increased marginally to \$309.8 million from \$307.0 million at December 31, 2018. The change in net debt primarily reflected an overall reduction in borrowings of \$4.7 million which was more than offset by a reduction in cash of \$7.4 million at the end of the first quarter of 2019. The reduction in borrowings comprised an addition to debt of \$8.5 million due to the adoption of IFRS 16 (see

Changes in Accounting Policy) effective January 1, 2019, which was more than offset by scheduled debt repayments and a stronger Canadian currency. Our short-term priorities are to reduce debt and enhance liquidity by focusing on operational improvements and undertaking other initiatives. See "Liquidity and Capital Resources" below. The net debt to capitalization ratio was 49% at March 31, 2019 compared to 47% at December 31, 2018. Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 43% at March 31, 2019 compared to 42% at December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the consolidated statements of cash flows as presented within our unaudited interim condensed consolidated financial statements for the quarters ended March 31, 2019 and 2018.

Summary of Cash Flows (1)

(millions of dollars, unaudited)	Q1 2019	Q4 2018	Q1 2018
Cash generated from (used in)			
Operating activities	6.5	10.7	1.9
Financing activities	(14.3)	(6.5)	0.7
Investing activities	0.6	(5.3)	(8.8)
Increase (decrease) in cash	(7.2)	(1.1)	(6.2)

(1) Financial information reflects results of continuing and discontinued operations. The impact of discontinued operations on net change in cash is discussed below.

Operating Activities

We operate in a cyclical industry.

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

We used cash in operations before working capital changes of \$0.7 million and generated cash of \$7.2 million from net working capital changes in the first quarter of 2019. The change in non-cash working capital was largely comprised of reductions in prepaid timber harvesting rights and lumber inventories and an increase in accounts payable which were partially offset by higher accounts receivable. The seasonal build-up of log inventories at our BC mills was less pronounced than last year due to the reduced operating rate expected at our FSJ Mill over the first half of 2019.

We used cash in operations before working capital changes of \$5.9 million and generated cash of \$16.6 million from net working capital changes in the fourth quarter of 2018. The change in non-cash working capital was primarily due to reductions in accounts receivables due to lower lumber prices, prepaid timber harvesting rights and lumber inventories.

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.

Financing Activities

Financing activities used cash of \$14.3 million in the first quarter of 2019. Cash outflows included repayments of our term loans of \$3.8 million, the revolving credit facility of \$3.1 million and leases of \$1.0 million and the payment of finance expenses of \$6.3 million.

Financing activities used cash of \$6.5 million in the fourth quarter of 2018 and primarily comprised net proceeds from the Conifex Power term loan of \$70 million, the repayment and retirement of Conifex Power's then-existing term loan and operating loan of \$62.8 million and \$1.6 million, respectively, repayment of long-term debt of \$4.3 million, and the payment of finance expenses of \$8.4 million.

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.

Investing Activities

Investing activities generated cash of \$0.6 million in the first quarter of 2019 and included expenditures of \$0.9 million on capital improvements in the lumber segment offset by net proceeds from the settlement of an insurance claim of \$0.5 million and from disposal of assets of \$0.9 million.

Investing activities consumed cash of \$5.3 million in the fourth quarter of 2018 and mainly consisted of \$2.4 million on capital improvements at our BC mills and \$2.6 million related to our US mills. Lumber segment capital expenditures at our BC mills were primarily related to the upgrade of infrastructure to support waterborne transport of logs at Mackenzie and maintenance of business projects. Capital improvements at the US mills were largely focused on major maintenance projects and various smaller high return projects.

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 our El Dorado Mill, which largely comprised remaining payments on previous capital commitments and capitalization of start-up costs.

Discontinued Operations

The Summary of Cash Flow table includes net decrease in cash from discontinued operations of \$2.3 million in the first quarter of 2019 and net increase in cash of \$1.0 million in the fourth quarter of 2018 and \$0.7 million in the first quarter of 2018.

Credit Facility

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

Interest is payable on the Credit Facility at floating rates based on the lenders' Canadian prime rate, CDOR, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the loan parties' maximum total leverage ratio.

Our borrowings under the Credit Facility are subject to customary covenants, including a fixed charge coverage ratio and a maximum total leverage ratio. The financial covenants are measured quarterly based on the performance and financial position of the loan parties, which excludes certain of our subsidiaries.

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

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

We and our lenders amended certain terms under the Credit Facility. The amendments included the elimination of measurement of the financial covenants until the quarter ended March 31, 2020; an increase ranging from 1% to 2.25% in the applicable margin rate depending on the maximum total leverage ratio; revisions to availability under the revolving credit facility and a periodic reduction of the revolving credit facility. The reduction in the revolving credit facility is not expected to materially impact forecasted borrowing base availability.

The amendments also provide for accelerated repayment of the term loan from additional scheduled repayments and an increase in the annual non-scheduled principal repayments from 50% to 80% of excess cash flow commencing in the second quarter of 2020. Additionally, the term of the Credit Facility was revised to mature on June 30, 2021. The Company was in compliance with its covenants under the Credit Facility for the quarter ended March 31, 2019.

Liquidity

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

Total liquidity is comprised of unrestricted cash and available credit under our revolving credit facility. At March 31, 2019, we had total liquidity of \$11.1 million, compared to \$17.8 million at the end of 2018. Liquidity is comprised of unrestricted cash of \$6.5 million and unused availability under our revolving credit facilities of \$4.5 million. Availability under the Credit Facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, net of specific reserves.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber export duties imposed by the US in April 2017. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits, to the extent the additional costs on US destined shipments are not mitigated by higher lumber prices. Cumulative duties of approximately US\$29.1 million paid by Conifex since the inception of the current trade dispute remain held in trust by the US pending the First Administrative Review and conclusion of all appeals of US decisions.

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

In the fourth quarter of 2018, in response to market conditions characterized by lower lumber prices and elevated log costs in the northern interior of BC, we announced a temporary change in operating format at our FSJ Mill which is expected to reduce investment in working capital and reduce overall costs. In January 2019, we announced a three-week production curtailment for February 2019 at this site. Subsequent to the end of the reporting quarter, we announced further production curtailments at our FSJ and Mackenzie mills. We expect the curtailments to impact favorably on our working capital requirements and cash flow from operations. We continue to focus on and prioritize operational enhancements and cost containment as our two Arkansas mills ramp up two-shift production to targeted operating rates. We

completed the sale of Lignum on April 1, 2019 and utilized the proceeds of approximately US\$11.5 million to partially repay a portion of the revolving credit facility. We have worked closely with our principal lenders and renegotiated key covenants under our Credit Facility (see "Credit Facility" above).

We have assessed and are prepared to consider implementing other options to increase liquidity and meet our scheduled commitments. This includes minimizing discretionary capital expenditures, further reducing working capital levels, and potentially monetizing certain assets that are not central to our mid- and long-term development as a North American lumber producer.

We monitor expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Based on the current level of operations and our present expectations for future periods in light of the existing economic environment, coupled with the actions already taken and the alternatives available to us, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facility, will be adequate to meet our obligations through 2019. We expect our US mills to provide additional reliable sources of cash flow with productivity and other operational improvements continuing to progress throughout 2019.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements at March 31, 2019 were comprised of standby letters of credit totalling \$7.2 million posted by Conifex Power. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA.

Transactions Between Related Parties

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

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber prices)	2019		2018		2017			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales - lumber segment	125.5	128.2	151.0	133.7	85.8	97.3	91.1	89.0
Sales - electricity	8.2	8.0	6.1	5.1	7.5	8.2	6.1	4.7
Operating income	(12.4)	(15.3)	11.1	14.7	6.3	14.2	8.1	5.7
Net income (loss) from continuing operations	(12.0)	(24.0)	6.0	7.7	1.6	8.0	6.2	4.2
Net income (loss) from discontinued operations	0.2	1.0	(1.7)	1.4	1.0	-	(0.1)	0.1
Net income (loss)	(11.8)	(23.0)	4.3	9.1	2.6	8.0	6.1	4.3
Basic and diluted earnings (loss) per share								
Continuing operations	(0.25)	(0.51)	0.13	0.29	0.06	0.30	0.24	0.16
Discontinued operations	-	0.02	(0.04)	0.05	0.04	-	-	-
Total basic earnings (loss) per share	(0.25)	(0.49)	0.09	0.34	0.10	0.30	0.24	0.16
Adjusted EBITDA - continuing operations (1)	(2.7)	(7.2)	17.8	19.2	8.2	17.4	12.0	10.1
Shares outstanding - weighted average (millions)	46.6	46.6	45.3	26.5	26.4	26.4	26.4	26.3

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

Production - WSPF lumber (MMfbm)	73.5	93.5	104.0	132.4	123.7	129.9	133.4	131.6
Production - SYP lumber (MMfbm)	104.5	95.1	82.6	25.0	-	-	-	-
Shipments - WSPF lumber (MMfbm)	78.7	99.9	111.8	133.8	112.7	138.2	135.3	128.5
Shipments - SYP lumber (MMfbm)	105.3	94.7	75.8	23.8	-	-	-	-
Shipments - wholesale lumber (MMfbm)	16.6	12.8	15.5	15.1	7.4	10.0	8.5	8.6
Electricity production - GWh	55.6	54.6	54.7	51.5	50.5	55.2	55.2	51.0
Average exchange rate - US\$/Cdn\$ (2)	0.752	0.757	0.765	0.775	0.791	0.787	0.798	0.744
Average WSPF 2x4 #2&Btr lumber price (US\$) (3)	\$372	\$327	\$482	\$598	\$514	\$464	\$406	\$388
Average WSPF 2x4 #2&Btr lumber price (Cdn\$)(4)	\$495	\$432	\$630	\$772	\$650	\$590	\$509	\$522
Average SYP 2x4 #2&Btr lumber price (US\$) (5)	\$402	\$419	\$469	\$574	\$540	\$438	\$382	\$455
Average SYP 2x4 #2&Btr lumber price (Cdn\$)(4)	\$534	\$553	\$613	\$741	\$683	\$557	\$478	\$612

Reconciliation of Adjusted EBITDA to Net Income (Loss)

Net income (loss) from continuing operations	(12.0)	(24.0)	6.0	7.7	1.6	8.0	6.2	4.2
Add: Finance costs	6.1	6.5	6.3	2.4	1.5	1.5	1.5	1.6
Amortization	9.2	9.2	7.0	5.5	4.4	4.8	4.3	4.3
Deferred income tax expense	(1.5)	(10.2)	1.0	3.6	0.7	3.1	-	-
EBITDA from continuing operations (6)	1.8	(18.5)	20.3	19.2	8.2	17.4	12.0	10.1
Add: Foreign exchange (gain) loss on long-term debt	(4.5)	11.3	(2.5)	-	-	-	-	-
Adjusted EBITDA from continuing operations	(2.7)	(7.2)	17.8	19.2	8.2	17.4	12.0	10.1

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

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

(3) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.

(4) Average SPF 2x4 #2&Btr and SYP 2x4 #2 lumber prices (US\$) divided by average exchange rate.

(5) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.

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

Our quarterly financial results are impacted by a variety of market related factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the softwood lumber duty deposits rates on shipments to the US, stumpage rates, and foreign exchange rates. Other micro-level factors that influence quarterly financial trends include operating rates,

shipment volumes, raw material and manufacturing costs, and transactions of a non-recurring nature. We rely primarily on third parties for transportation of our products as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact our operations, cost structure or shipment volumes.

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months at our Canadian mills to ensure adequate supply of fibre to our mills 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 interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

The impact on net income of foreign exchange translation gains or losses on US dollar-denominated long-term debt became a significant factor, particularly in the fourth quarter of 2018 and the first quarter of 2019, subsequent to the completion in July 2018 of our Credit Facility agreement which is primarily denominated in US dollars.

Discontinued Operations

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

OUTLOOK

We continue to believe current lumber prices do not properly reflect fundamental supply and demand factors that are expected to drive lumber pricing through the remainder of 2019 and 2020.

Regarding lumber supply, the interior region of BC is the second largest source of softwood lumber supply to the North American market. Permitted sawtimber harvest levels in the region are in the process of being reduced to long term sustainable levels to adjust for the mountain pine beetle (“MPB”) epidemic. In terms of lumber demand, we expect lumber consumption will continue to grow over the next two years, driven by a continuation of gradual increases in new residential construction and more substantial increases in repair and remodeling demand. We expect the growth in lumber demand will outpace the growth in net new supply, capacity utilization rates will remain elevated, and lumber prices, while remaining volatile, will improve.

SUBSEQUENT EVENT

On April 1, 2019, we completed the sale of Lignum for proceeds of approximately US\$11.5 million. The final proceeds for working capital is subject to customary post-closing adjustments. The proceeds of the sale were utilized to repay a portion of the revolving credit facility.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2019, the Company has adopted IFRS 16, *Leases*, using the modified retrospective method. The new standard replaces IAS 17, *Leases*, and the related interpretations. Under this approach, the Company is required to recognize a right-of-use ("ROU") asset for leases that were previously classified as operating, and a related lease liability for the obligation to make the lease payments. The ROU asset represents the Company's right to use the underlying asset over the term of the lease.

At the inception of a lease, the ROU assets will be initially measured at cost, which is the initial lease obligation amount plus any initial direct costs, and less any lease incentives received. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

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

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

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

RISKS AND UNCERTAINTIES

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

OUTSTANDING SECURITIES

As at May 13, 2019, the Company had 46,630,175 issued and outstanding common shares, 100,000 options granted, 1,425,671 long-term incentive plan awards and 3,500,000 warrants.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2019, there were no changes that have materially affected, or are reasonably likely to materially affect Conifex's internal controls over financial reporting.

ADDITIONAL INFORMATION

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