CONIFEX

CONIFEX TIMBER INC.
SECOND QUARTER 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of August 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 June 30, 2019 relative to the quarters ended March 31, 2019 and June 30, 2018. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the quarters ended June 30, 2019 and 2018, as well as the 2018 annual MD&A and the December 31, 2018 audited consolidated financial statements and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

RECENT DEVELOPMENTS

Sale of Lignum

On April 1, 2019, we completed the sale of Lignum for gross proceeds of approximately US$11.5 million, including US$10.5 million for working capital, subject to customary post-closing 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. For further information relating to Discontinued Operations, please refer to Note 8 to the unaudited condensed consolidated interim financial statements for the quarters ended June 30, 2019 and 2018.

The net proceeds of approximately US$11.3 million were utilized to repay a portion of our revolving Credit Facility (as defined herein).

Completion of Agreement for Sale of Fort St. James Sawmill

In June 2019, we entered into a definitive sale agreement with a major North American lumber producer for the sale of our Fort St. James sawmill complex (the “FSJ Mill”) and associated forest licence. The purchase price is approximately $39 million plus the market value of finished lumber and log inventory at closing.

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

We currently expect to close the sale in or about October 2019, upon completion of customary closing conditions and regulatory approvals, including approval of the Minister of Forests, Lands, Natural Resource Operations and Rural Development. The proceeds of the transaction are planned to be used primarily to retire debt and to provide additional liquidity to better optimize performance and value at certain of our other mills. Due to the uncertain lumber market conditions, we do not expect to resume normal operations at the FSJ Mill prior to closing of the transaction.

Sale of Countervailing and Anti-Dumping Duty Refunds

In June 2019, we completed the sale of our interest in any duty refunds related to entries of softwood lumber shipments during 2017 and 2018 for gross proceeds of US$ 11.9 million, representing 42.5% of countervailing (“CV”) and anti-dumping (“AD) duty deposits paid during that period (the “Duties Sale”). We believe the benefits of immediate liquidity and debt reduction provided by the monetization of the potential CV and AD duty refunds outweighed the value of the discount, particularly given the highly uncertain timing, magnitude and return of any such refunds.

The transaction resulted in a gain of $12.6 million which we recorded as other income in the second quarter of 2019. The gain is not included in calculating adjusted EBITDA for the period. The proceeds of the sale, which were recorded as accounts receivable at June 30, 2019, were received in July 2019, and used to repay a portion of our Credit Facility.

Operating Rates at Our Mills

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

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

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

Our US mills produced Southern Yellow Pine (“SYP”) lumber at an annualized run rate of approximately 348 million board feet in the second quarter of 2019, 418 million board feet in the first quarter of 2019 and 100 million board feet in the second quarter of 2018. Production levels in the first half of 2019, on an annualized basis, represented approximately 82% of targeted levels for 2019 and 70% of two-shift dimension lumber production capacity of 550 million board feet.

The El Dorado and Glenwood mills were converted to single-shift operating configurations on June 4 and June 17, 2019, respectively. We plan to extend operating hours at the Glenwood mill over the next several months. The lower operating rates at our Arkansas mills are expected to improve hourly productivity and reduce overall operating costs and investment in working capital. Our Cross City mill continues to contribute positively to operating results. Subsequent to quarter end, we announced the indefinite curtailment of the El Dorado mill starting in October 2019.

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

Liquidity and Credit Facility Update

The adverse impact on our operating cash flow from significantly weaker lumber prices over about the last three quarters, continued imposition of duty deposits on US shipments and rapidly escalating log costs at our BC mills (with resultant production curtailments and higher operating costs), coupled with increased debt levels to fund our strategic expansion in the US South, have constrained our liquidity over the first six months of 2019. While we were in compliance with our debt covenants under the Credit Facility for the period ended June 30, 2019, we are actively working with our lenders to amend certain requirements under the Credit Facility, which we expect to complete in or about the third quarter. However, because discussions have not been finalized and the lenders' decision is out of our control, the outcome cannot be considered probable and no assurance can be given regarding the likelihood, certainty or timing of consummating any such amendment. We continue to also actively assess a number of additional initiatives underway to enhance liquidity and reduce debt, in addition to continuing to manage working capital levels. See the "Credit Facility", "Liquidity" and "Bioenergy-Segment – Potential Monetization" sections of this interim MD&A.

SUMMARY OF OPERATING RESULTS

Consolidated Net Earnings

During the second quarter of 2019, we incurred a net loss of $9.1 million, or $0.19 per share, compared to a net loss of $11.9 million or $0.25 per share in the previous quarter and net income of $9.2 million or $0.35 per share in the second quarter of 2018. The following table summarizes our net operating results on a per segment basis.

Selected Financial Information (1)

(millions of dollars except share and per share amounts and exchange rate information, unaudited)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Sales by Segment					
Lumber	91.3	125.5	216.8	133.6	219.4
Bioenergy	4.4	8.2	12.6	5.1	12.6
	95.7	133.7	229.5	138.7	232.0
Operating Earnings (Loss) by Segment					
Lumber	(19.1)	(13.5)	(32.6)	14.9	20.9
Bioenergy	0.6	3.0	3.6	1.4	3.4
Corporate and other unallocated items	(2.0)	(1.9)	(3.9)	(1.5)	(3.3)
	(20.5)	(12.4)	(32.9)	14.7	21.0
Adjusted EBITDA from continuing operations by Segment					
Lumber	(12.8)	(6.0)	(18.9)	18.1	24.8
Bioenergy	1.5	4.7	6.2	2.4	6.0
Corporate and other unallocated items	(1.9)	(1.4)	(3.2)	(1.3)	(3.4)
	(13.2)	(2.7)	(15.9)	19.2	27.4
Net income (loss) from continuing operations	(8.3)	(12.0)	(20.4)	7.7	9.3
Net income from discontinued operations	(0.8)	0.2	(0.6)	1.4	2.4
Net income (loss) (2)	**(9.1)**	**(11.9)**	**(21.0)**	**9.2**	**11.7**
Basic and diluted earnings (loss) per share					
Continuing operations	(0.18)	(0.25)	(0.44)	0.30	0.35
Discontinued operations	(0.01)	-	(0.01)	0.05	0.09
Total basic and diluted earnings (loss) per share	(0.19)	(0.25)	(0.45)	0.35	0.44
Shares outstanding - weighted average (millions)	46.6	46.6	46.6	26.5	26.5
Average exchange rate - US$/Cdn$ (3)	0.748	0.752	0.750	0.775	0.783
Reconciliation of adjusted EBITDA to Net Income (Loss)					
Net income (loss) from continuing operations	(8.3)	(12.0)	(20.4)	7.7	9.3
Add: Finance costs	7.4	6.1	13.6	2.5	3.9
Amortization	7.4	9.2	16.6	5.5	10.0
Deferred income tax expense	(2.7)	(1.5)	(4.2)	3.5	4.2
EBITDA from continuing operations (4)	3.8	1.8	5.6	19.2	27.4
Add: Foreign exchange (gain) loss on long-term debt	(4.4)	(4.5)	(8.9)	-	-
Gain on sale of right to duty refunds	(12.6)	-	(12.6)	-	-
Adjusted EBITDA from continuing operations (5)	(13.2)	(2.7)	(15.9)	19.2	27.4

(1) Unless otherwise noted, financial information reflects results of continuing operations. See “Recent Developments – Sale of Lignum” 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, foreign exchange translation gains or losses on long-term debt and gain related to the Duties Sale.

Continuing Operations

Our revenues totaled $95.7 million in the second quarter of 2019, a 28% decline from the prior quarter and 31% from the same quarter last year. The lower revenues were largely attributable to the lumber segment which recorded reduced shipments reflecting lower operating rates at our BC and Arkansas mills and a decline in sales realizations due to weaker lumber prices, particularly compared to the second quarter of 2018. Bioenergy segment revenues were generally consistent with seasonal patterns and reflected plant dispatch periods in the second quarters of 2019 and 2018.

We recorded operating losses of $19.1 million in the lumber segment in the second quarter of 2019, $13.5 million in the previous quarter and operating earnings of $14.9 million in the second quarter of 2018. Lumber segment operating results included CV and AD duties expense of $2.5 million in the second quarter of 2019, $3.8 million in the first quarter of 2019 and $8.2 million in the second quarter of 2018. Bioenergy segment operating earnings were generally consistent year-over-year and contributed operating earnings of $3.6 million in the first six months of 2019 and $3.4 million in the same period of last year. Corporate costs of $2.0 million were consistent with the previous quarter and represented an increase of $0.5 million over the second quarter of 2018 due mainly to the expansion of our US South operations.

Net income from continuing operations included foreign exchange gains on long-term debt of $4.4 million in the second quarter of 2019 and $4.5 million in the previous quarter. Finance costs were $7.4 million in the second quarter of 2019, $6.1 million in the previous quarter and $2.4 million in the second quarter of 2018. We recorded a gain on the Duties Sale of $12.6 million as other income in the second quarter of 2019.

We recognized deferred income tax recovery of $4.2 million in the first six months of 2019 and a deferred income tax provision of $4.2 million for the same period last year.

Adjusted EBITDA was negative $13.2 million in the second quarter of 2019, negative $2.7 million in previous quarter and $19.2 million in the second quarter of 2018. On a year-to-date basis, adjusted EBITDA related to the bioenergy segment and corporate and unallocated items were generally consistent. The variance in adjusted EBITDA, which was negative $15.9 million for the six-month period ended June 30, 2019 and $27.4 million for the six-month period ended June 30, 2018, was largely attributable to the lumber segment.

Discontinued Operations

Operating income from discontinued operations was $0.7 million in the first quarter of 2019 and $1.3 million in the second quarter of 2018.

We recorded a net loss from discontinued operations of $0.8 million in the second quarter of 2019 arising from the loss on sale of Lignum. Net income from discontinued operations was $0.2 million in the first quarter of 2019 and $1.4 million in the second quarter of 2018. Net income from discontinued operations included foreign exchange translation loss of $0.4 million in the first quarter of 2019 and a foreign exchange translation gain of $0.5 million in the second quarter of 2018. For further information relating to Discontinued Operations, see “Recent Developments – Sale of Lignum” above, and refer to Note 8 to the unaudited condensed consolidated interim financial statements for the quarters ended June 30, 2019 and 2018.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT (1)

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Sales -Lumber - Conifex produced	73.6	96.5	170.1	106.0	176.2
- Lumber - wholesale	3.6	11.7	15.3	10.6	15.2
- By-products	10.7	14.1	24.8	11.2	17.5
- Logistics services	3.4	3.2	6.6	5.8	10.5
Total Sales	91.3	125.5	216.8	133.6	219.4
EBITDA (2)	(12.8)	(6.0)	(18.9)	18.1	24.8
Amortization	6.4	7.5	14.0	4.5	7.3
Gain (loss) on derivative financial instruments	(0.2)	(0.1)	(0.3)	(1.2)	(3.4)
Operating income (loss)	(19.1)	(13.5)	(32.6)	14.9	20.9
Statistics (in millions, other than exchange rate and lumber prices)					
Production - WSPF lumber (MMfbm)	47.6	73.5	121.1	132.4	256.1
Production - SYP lumber (MMfbm)	87.1	104.5	191.6	25.0	25.0
Shipments - WSPF lumber (MMfbm)	60.4	78.7	139.1	133.8	246.5
Shipments - SYP lumber (MMfbm)	88.8	105.3	194.0	23.8	23.8
Shipments - wholesale lumber (MMfbm)	5.4	16.6	22.0	15.1	22.4
Average exchange rate - US$/Cdn$ (3)	0.748	0.752	0.750	0.775	0.783
Average WSPF 2x4 #2&Btr lumber price (US$) (4)	$333	$372	$352	$598	$556
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (5)	$445	$495	$470	$772	$711
Average SYP 2x4 #2&Btr lumber price (US$) (6)	$371	$402	$386	$574	$557
Average SYP 2x4 #2&Btr lumber price (Cdn$) (5)	$497	$534	$515	$741	$712

(1) Financial information reflects results of continuing operations. See "Recent Developments – Sale of Lignum" 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.
(5) Average SPF 2x4 #2&Btr and SYP Westside 2x4 #2 lumber prices (US$), respectively, divided by average exchange rate.
(6) Source: Random Lengths Publications Inc

Continuing Operations

The US Census Bureau reported privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.26 million units over the second quarter of 2019, a level which was similar to the same quarter last year and approximately 4% higher than the first quarter of 2019. Single-family housing starts accounted for 67% of total second quarter 2019 US housing starts, which represented a decrease in units of 3% compared to the prior quarter and 6% relative to the second quarter of 2018. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

Average benchmark lumber prices for WSPF and SYP were weak in the second quarter of 2019, although housing starts remained generally stable and production curtailment announcements at a number of BC mills added volatility to prices. Prices for the bell-weather WSPF #2 & Btr product averaged US$333 during the second quarter of 2019, a decline of 10% from the previous quarter and

44% from the second quarter of 2018.[1] Benchmark prices for SYP Westside averaged US$371 during the second quarter of 2019, a decline of 8% from the previous quarter and 35% from the second quarter of 2018.[2] Several industry analysts have attributed the lower SYP lumber prices during the first half of this year to a historically wet winter and spring which suppressed housing construction activity and lumber demand across the US South.

The US dollar averaged US$0.748 for each Canadian dollar during the second quarter of 2019, a level generally consistent with the previous quarter and represented a weakening of the Canadian dollar of 3% compared to the same quarter last year.[3] Canadian dollar-denominated benchmark WSPF prices, which averaged $445 in the second quarter of 2019, declined by 10% or $50 from the previous quarter and 42% or $327 from the second quarter of 2018.

The US and China remained the principal markets for our BC mills and accounted for over 75% of total lumber shipments in each of the comparative quarters while shipments to Japan remained steady at approximately 7%. 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.

In addition to the weaker lumber price environment, our lumber segment operating results for the first six months of 2019 were impacted by significantly lower operating rates at our BC and Arkansas mills due to changes in operating configuration and temporary production curtailments as discussed under “Operating Rates at Our Mills”. Lumber production at our BC mills totalled approximately 48 million board feet during the second quarter of 2019, which represented an annualized operating rate of 35% compared to 54% in the previous quarter and 96% in the second quarter of 2018. Production at our US mills of approximately 87 million board feet represented a decline of 17% from the previous quarter and contributed 65% of overall production. Production at our US mills represented an annualized operating rate of 63% in the second quarter of 2019 and 76% in the previous quarter based on two-shift dimension lumber production capacity of 550 million board feet. Our El Dorado mill, which commenced commercial operations in April 2018, produced 25 million board feet of SYP in the second quarter of 2018.

Shipments of Conifex produced lumber, which totaled approximately 149 million board feet in the second quarter of 2019, outpaced total production by over 14 million board feet in the current quarter and by 20 million board feet in the first half of 2019. Shipments of Conifex produced lumber declined by 19% from the previous quarter and by 5% from the second quarter of 2018.

Revenues from Conifex produced lumber were $73.6 million in the second quarter of 2019 and represented declines of 24% from the previous quarter and 31% from the second quarter of 2018. Compared to the prior quarter, lower revenues were mainly attributable to reductions in shipment volumes of Conifex produced lumber of 19% and in unit sales realizations of 6%. Compared to the second quarter of 2018, the lower revenues were primarily due to decreases in unit sales realization of 27% and in shipment volumes of 5%.

Wholesale lumber revenues and shipments varied in the comparative quarters but were generally consistent on a year-to-date basis. Our wholesale lumber shipments and revenues can fluctuate widely from time to time depending on market conditions and opportunities for profitable trades.

Declines in revenues from wood chips and other residuals of 24% from the previous quarter and 5% from the second quarter of 2018 were due mostly to lower chip volumes at our BC and Arkansas mills and, to a lesser extent, lower unit chip prices on shipments from our BC mills.

[1] Source: Random Lengths Publications Inc.

[2] Source: Random Lengths Publications Inc.

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

Overall operating costs in the first half of 2019 were challenged by the lower operating rates at our BC and Arkansas mills and the additional costs associated with ramping up second shifts at both of our Arkansas mills without the attendant benefit of higher productivity. The El Dorado and Glenwood mills were converted to single-shift operating configurations in 2019. We plan to extend operating hours at the Glenwood mill over the next several months. The shift reductions at our Arkansas mills are expected to improve hourly productivity and reduce overall operating costs and investment in working capital. Our Cross City mill continues to perform well and contribute positively to operating results.

Unit log costs increased by 6% over the previous quarter and 19% over the same quarter last year at our BC mills. The higher log costs were mainly attributable to higher market based stumpage and purchased log costs. Unit log costs at our El Dorado and Cross City mills were generally consistent with the prior quarter. We experienced higher unit log costs and periodic production disruptions at our Glenwood mill due to extremely wet weather conditions, particularly in the first quarter of 2019, which constrained log availability and heightened local competition for logs.

An increase in depreciation and amortization expense of $6.5 million in the first six months of 2019 compared to the same period last year was largely attributable to our expanded operations in the US South.

We recorded an inventory write-down of $0.4 million in the second quarter of 2019 compared to positive valuation adjustments of $1.6 million in the previous quarter and $0.6 million in the second quarter of 2018.

We expensed CV and AD duty deposits of $2.5 million in the second quarter of 2019, $3.8 million in the previous quarter and $8.2 million in the second quarter of 2018. The duty deposits were based on a combined rate of 20.23%.

The lumber segment recorded operating losses of $19.1 million in the second quarter of 2019 and $13.5 million in the previous quarter and operating income of $14.9 million in the second quarter of 2018. Compared to the previous quarter, lumber segment operating results were hampered by lower shipment volumes, sales realizations and operating rates, higher unit log and cash conversion costs and unfavorable quarter-over-quarter variance in inventory valuations. Compared to the second quarter of 2018, lumber segment operating results were challenged by significantly weaker lumber prices resulting in lower sales realizations, reduced shipment volumes and operating rates, and higher unit log and cash conversion costs. These factors were partially offset by a lower duty deposit expense.

Lumber segment EBITDA was negative $12.8 million in the second quarter of 2019 compared to negative $6.0 million in the previous quarter and $18.1 million in the second quarter of 2018. Lumber segment EBITDA was negative $18.9 million for the six months ended June 30, 2019 and $24.7 million for the six months ended June 30, 2018.

Bioenergy Segment

(millions of dollars, other than statistical information, unaudited)	**Q2 2019**	**Q1 2019**	**YTD 2019**	**Q2 2018**	**YTD 2018**
Electricity sales under EPA - GWh	47.2	55.6	102.8	51.5	102.0
Electricity revenues	4.4	8.2	12.6	5.1	12.6
EBITDA	1.5	4.7	6.2	2.4	6.0
Amortization	0.9	1.7	2.6	1.0	2.6
Operating income	0.6	3.0	3.6	1.4	3.4

Our power generation plant at Mackenzie, BC (the “Mackenzie Power Plant”) sold 47.2 gigawatt hours of electricity under our Electricity Purchase Agreement (“EPA”) with BC Hydro and Power Authority (“BC

Hydro") in the second quarter of 2019, which represented approximately 86% of targeted operating rates. The Mackenzie Power Plant took planned major maintenance shutdown days in May 2019 which resulted in lower billable gigawatt hours during the dispatch period. Current quarter electricity revenues were 46% lower than the first quarter of 2019 due to lower operating and seasonal rates, coupled with slightly reduced rates during the dispatch period. Electricity revenues decreased by 14% compared to the same quarter last year due primarily to lower operating rates and a slightly longer dispatch period during the current quarter. Year-to-date revenues and operating rates were consistent, at $12.6 million and approximately 94%, respectively.

Cash operating costs were generally consistent with the second quarter of 2018 and improved by 17% from the first quarter of 2019. The cost improvement was primarily due to elimination of variable costs during the dispatch period and higher weather related seasonal costs during the winter months. Amortization expense was lower compared to the previous quarter as idled components are not depreciated during the dispatch period.

Bioenergy segment EBITDA was $6.2 million for the first six months of 2019 and represented a modest improvement over the same period last year.

Dispatch Notice
Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to "turn down" electricity purchased from us during periods of low demand by issuing a "dispatch order". In the second quarter of 2019, BC Hydro issued dispatch orders with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of approximately 114 days, encompassing the early May to August 31, 2019 period. In 2018, the Mackenzie Power Plant, among others, was dispatched for a period of 112 days, encompassing the mid-May to early September 2018 period. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro (the "LDA"). We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

Potential Monetization
The adverse impact on our cash flow from weaker lumber prices, payments of duty deposits and increased log costs in BC, together with increased debt levels related to our US expansion, have constrained liquidity. As a result, we are actively reviewing options to increase liquidity and meet scheduled commitments, including reviewing the possible sale of the Mackenzie Power Plant in whole or in part. We believe that any monetization of our investment in the Mackenzie Power Plant to reduce debt and augment liquidity would enhance our business. However, there can be no assurance that we will be able to monetize our Mackenzie Power Plant on terms acceptable to us or at all.

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $2.0 million in the second quarter of 2019 and the prior quarter and $1.5 million in the second quarter of 2018. Corporate costs for the first six months of 2019 were $3.9 million compared to $3.2 million in the same period last year. The year-over-year increase was mostly attributable to costs related to the expansion of our US operations.

Interest Expense and Finance Costs

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

Interest and finance costs totaled $7.4 million in the second quarter of 2019, $6.1 million in the first quarter of 2019 and $2.5 million in the second quarter of 2018. Year-to-date interest and finance costs were $13.6 million for 2019 compared to $3.9 million for 2018.

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

Loss on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business. Gains or losses on lumber derivative instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. Conifex does not presently use derivatives for trading or speculative purposes. We recorded losses on lumber derivative instruments of $0.2 million in the second quarter of 2019, $0.1 million in the prior quarter and $1.2 million in the second 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$0.764 at June 30, 2019, US$0.748 at March 31, 2019 and US$0.759 at June 30, 2018.[4] We recorded foreign exchange translation gains of $0.1 million in the second quarter of 2019, $0.5 million in the previous quarter and $0.2 million in the second quarter of 2018.

We recognized foreign exchange gains of $4.4 million in the second quarter of 2019 and $4.5 million in the previous quarter on our US dollar term loan under the Credit Facility held by our Canadian entities due to the stronger Canadian dollar at June 30, 2019 and 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 after-tax losses of $7.6 million in the second quarter of 2019 and $8.3 million in the previous quarter, and an after-tax gain of $1.0 million in the second quarter of 2018 to other comprehensive income.

Income tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. The Company recorded a deferred income tax recovery of $4.2 million in the first six months of June 30, 2019 and a deferred income tax expense of $4.2 million over the same period last year. As at June 30, 2019, the Company has recognized deferred income tax assets of $6.1 million.

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

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, unaudited)	**Q2 2019**	**Q4 2018**	**Q2 2018**
Cash	2.4	16.3	24.0
Cash - restricted	12.7	8.6	9.1
Operating working capital (1)	38.5	87.0	71.5
Operating loans	-	-	(1.6)
Current portion of revolver and long-term debt	(91.5)	(46.4)	(5.7)
Assets held for sale (2)	25.8	-	-
Liabilities held for sale (2)	(4.0)	-	-
Net current assets	(16.1)	65.5	97.3
Long-term assets - goodwill	156.1	163.8	3.3
Long-term assets related to Mackenzie Power Plant	108.7	111.4	112.4
Long-term assets - lumber segment and corporate	269.1	302.0	196.0
	517.8	642.7	409.0
Non-interest bearing long-term liabilities	16.9	17.0	30.2
Long-term debt - Conifex Power term loan	62.0	63.4	60.0
Revolving credit facility	-	23.7	90.7
Long-term debt - other	135.2	198.5	5.2
Shareholders' equity	303.7	340.1	222.9
	517.8	642.7	409.0
Ratio of current assets to current liabilities	0.9	1.7	2.9
Net debt to capitalization	47%	47%	37%
Net debt to capitalization (3)	42%	42%	25%

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

The ratio of current assets to current liabilities was 0.9:1 at June 30, 2019 compared to 1.7:1 at December 31, 2018 and 2.9:1 at June 30, 2018. The main influences on the current ratio over the first six months of 2019 were reductions in cash and operating working capital, an increase in the current portion of lumber segment debt and the reclassification of long-term assets and liabilities related to the sale of the FSJ Mill as current period assets and liabilities held for sale.

Operating working capital was reduced by $48.5 million over the first six months of 2019 due to the seasonal reduction in log inventories at our BC mills in the second quarter of 2019 and lower operating rates at our BC and Arkansas mills. Overall debt related to the lumber segment was $223.7 million at June 30, 2019 compared to $265.7 million at December 31, 2018. The net reduction of $42.0 million in lumber segment debt comprised repayments of the revolving loan under the Credit Facility of $30.1 million and the term loan under the Credit Facility and capital leases of $7.2 million, foreign exchange revaluation of US dollar denominated debt of $9.5 million due to the strengthening of Canadian currency, and an increase in deferred financing fees of $3.7 million, partially offset by the addition of leases previously classified as operating leases of $8.5 million due to the adoption of IFRS 16, *Leases*, on January 1, 2019 (see "Changes in Accounting Policy"). An increase in the current portion of lumber segment debt of $45.0 million over the first six months of 2019 was due primarily to additional repayments of the term loan under the Credit Facility required over the next 12 months as negotiated under amendments to the Credit Facility. The current ratio in the first half of 2019 was positively impacted by the reclassification of approximately $18.8 million in net long-term assets and liabilities related to the FSJ Mill to current assets and liabilities held for sale.

The reduction in shareholders' equity of $36.4 million over the first six months of 2019 was mostly comprised of a year-to-date net loss of $21.0 million and a non-cash foreign exchange translation of foreign operations loss of $16.0 million that was recorded as other comprehensive income.

The main factors contributing to the change in the current ratio compared to the first six months of 2018 were the reduction of cash and operating working capital totaling $54.6 million, an increase in the current portion of debt of $85.8 million and, to a lesser extent, the reclassification of net long-term term assets and liabilities related to the FSJ Mill to current assets and liabilities held for sale.

We manage capital with the objective of maintaining a strong balance sheet to adequately maintain capital resources to support our operations, sustain future development and facilitate access to capital markets at competitive rates. Our short-term priorities are to reduce debt and enhance liquidity by continuing to focus on operational improvements and undertaking other initiatives. See "Liquidity and Capital Resources" below. We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion, and bank advances, less cash. Total capital is calculated as the sum of net debt and equity.

Net debt at June 30, 2019 decreased by $33.4 million to $273.6 million from $307.0 million at December 31, 2018. The net debt to capitalization ratio was 47% at June 30, 2019 and December 31, 2018 and 37% at June 30, 2018. Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 42% at June 30, 2019 and December 31, 2018 and 25% at June 30, 2018. The increase in the year-over-year net debt to capitalization ratio was due primarily to increased borrowings under the Credit Facility which was completed in July 2018.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars, unaudited)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Cash generated from (used in)					
Operating activities	24.1	6.5	30.6	36.2	38.1
Financing activities	(38.7)	(14.3)	(52.9)	(14.1)	(13.4)
Investing activities	12.1	0.6	12.6	(9.0)	(17.8)
Increase (decrease) in cash	(2.5)	(7.2)	(9.7)	13.1	6.9

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 payable 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 $2.5 million in the first six months of 2019 compared to cash generation of $31.1 million in the first six months of 2018. Changes in non-cash working capital provided cash of $33.1 million in the first six months of 2019 and $7.0 million in the same period of last year. The reduction in non-cash working capital during the first half of 2019 was primarily due to decreases in prepaid timber harvesting rights and other prepaid expenses of $5.7 million and inventories of $18.2 million and an increase in accounts payable and accrued liabilities of $10.7 million.

Financing Activities
Financing activities consumed net cash of $53.0 million in the first six months of 2019. Cash outflows included net repayments of our revolving Credit Facility of $30.1 million and term loan and capital leases of $8.4 million and the payment of finance expenses of $14.5 million.

Financing activities used net cash of $13.4 million in the first six months of 2018 and included net repayments of our then-existing revolving credit facility of $3.6 million and term loan of $2.8 million and the payment of finance expenses of $6.4 million.

Investing Activities
Investing activities provided cash of $12.6 million in the first six months of 2019 and included $2.2 million spent on capital improvements in the lumber segment, which was more than offset by net proceeds of $14.6 million from the completion of sale of Lignum, other asset disposals and an insurance claim settlement. Lumber segment capital expenditures were primarily related to maintenance of business projects.

Investing activities consumed cash of $17.8 million in the first six months of 2018 and mainly consisted of $5.1 million on capital improvements at our BC mills, $1.1 million on major maintenance items at the Mackenzie Power Plant and $11.6 million related to the El Dorado Mill. Lumber segment capital expenditures for our BC mills were primarily related to the upgrade of infrastructure to support waterborne transport of logs at Mackenzie and maintenance of business projects. Expenditures related to the El Dorado mill largely comprised remaining payments on previously accrued capital commitments and capitalization of start-up costs in the first quarter of 2018.

Discontinued Operations
The Summary of Cash Flow table includes net decrease in cash from discontinued operations of $2.3 million in the first six months of 2019 and net increase in cash of $3.1 million in the first six months of 2018.

Credit Facility

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

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

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

Credit Facility Amendments

We previously amended the Credit Facility to eliminate the measurement of financial covenants until March 31, 2020; increase the applicable margin rate depending on the maximum total leverage ratio; revise availability under the revolving Credit Facility; and reduce the Revolving Credit Facility. The amendments also provide for accelerated repayment of the term loan from scheduled repayments and an increase in annual non-scheduled principal repayments commencing in the second quarter of 2020. Additionally, the term of the Credit Facility was revised to mature on June 30, 2021. While we were in compliance with our debt covenants under the Credit Facility for the period ended June 30, 2019, we are actively working with our lenders to amend certain requirements under the Credit Facility, which we expect to complete in or about the third quarter. See “Bioenergy Segment – Potential Monetization” above.

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 June 30, 2019, we had total liquidity of $4.3 million, compared to $17.8 million at December 31, 2018 and $61.9 million at June 30, 2018. Liquidity at June 30, 2019 was comprised of unrestricted cash of $2.4 million and unused availability under our revolving Credit Facility of $1.9 million. Subsequent to quarter end, liquidity was enhanced by approximately $13.0 million from increased availability of US$5 million related to an amendment under the Credit Facility and a portion of the net proceeds from the Duties Sale. Availability under the Credit Facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, net of specific reserves.

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

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

In response to market conditions characterized by lower lumber prices, continued imposition of softwood lumber duties, and elevated log costs in the northern interior of BC, we implemented various temporary changes in operating formats, and temporary production curtailments at our BC and Arkansas mills as described in “Operating Rates at Our Mills” above during the first half of 2019. The changes were primarily implemented to optimize cash flows and reduce investments in working capital.

We completed the sale of Lignum on April 1, 2019 and utilized the proceeds of approximately US$11.5 million to partially repay a portion of the revolving Credit Facility. Liquidity was further enhanced in July 2019 with increased availability under the Credit Facility and the receipt of proceeds from the Duties Sale. We have worked closely with our principal lenders and renegotiated key covenants under our Credit Facility. See “Credit Facility” above.

We are implementing other options to help increase liquidity and meet scheduled commitments. This includes minimizing discretionary capital expenditures and optimizing working capital levels. The sale of the FSJ Mill is expected to close in or about October 2019for proceeds of approximately $39 million. We are also working to potentially monetize certain assets that are not core 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, available cash and the expected net proceeds of assets dispositions, together with available borrowings under our revolving Credit Facility, will be adequate to meet our obligations through 2019. We expect our Cross City mill to continue to provide a reliable source of cash flow.

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the second 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 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3
Sales - lumber segment	91.3	125.5	128.2	151.0	133.6	85.8	97.3	91.1
Sales - electricity	4.4	8.2	8.0	6.1	5.1	7.5	8.2	6.1
Operating income	(20.5)	(12.4)	(15.3)	11.1	14.7	6.3	14.2	8.1
Net income (loss) from continuing operations	(8.3)	(12.0)	(24.0)	6.0	7.7	1.6	8.0	6.2
Net income (loss) from discontinued operations	(0.8)	0.2	1.0	(1.7)	1.4	1.0	-	(0.1)
Net income (loss)	(9.1)	(11.9)	(23.0)	4.3	9.2	2.5	8.0	6.1
Basic and diluted earnings (loss) per share								
Continuing operations	(0.18)	(0.25)	(0.51)	0.13	0.30	0.06	0.30	0.24
Discontinued operations	(0.01)	-	0.02	(0.04)	0.05	0.04	-	-
Total basic earnings (loss) per share	(0.19)	(0.25)	(0.49)	0.09	0.35	0.10	0.30	0.24
Adjusted EBITDA - continuing operations (1)	(13.2)	(2.7)	(7.2)	17.8	19.2	8.2	17.4	12.0
Shares outstanding - weighted average (millions)	46.6	46.6	46.6	45.3	26.5	26.4	26.4	26.4
Statistics (in millions, other than exchange rate and lumber prices)								
Production - WSPF lumber (MMfbm)	47.6	73.5	93.5	104.0	132.4	123.7	129.9	133.4
Production - SYP lumber (MMfbm)	87.1	104.5	95.1	82.6	25.0	-	-	-
Shipments - WSPF lumber (MMfbm)	60.4	78.7	99.9	111.8	133.8	112.7	138.2	135.3
Shipments - SYP lumber (MMfbm)	88.8	105.3	94.7	75.8	23.8	-	-	-
Shipments - wholesale lumber (MMfbm)	5.4	16.6	12.8	15.5	15.1	7.4	10.0	8.5
Electricity production - GWh	47.2	55.6	54.6	54.7	51.5	50.5	55.2	55.2
Average exchange rate - US$/Cdn$ (2)	0.748	0.752	0.757	0.765	0.775	0.791	0.787	0.798
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$333	$372	$327	$482	$598	$514	$464	$406
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(4)	$445	$495	$432	$630	$772	$650	$590	$509
Average SYP 2x4 #2&Btr lumber price (US$) (5)	$371	$402	$419	$469	$574	$540	$438	$382
Average SYP 2x4 #2&Btr lumber price (Cdn$)(4)	$497	$534	$553	$613	$741	$683	$557	$478
Reconciliation of Adjusted EBITDA to Net Income (Loss)								
Net income (loss) from continuing operations	(8.3)	(12.0)	(24.0)	6.0	7.7	1.6	8.0	6.2
Add: Finance costs	7.4	6.1	6.5	6.3	2.4	1.5	1.5	1.5
Amortization	7.4	9.2	9.2	7.0	5.5	4.4	4.8	4.3
Deferred income tax expense	(2.7)	(1.5)	(10.2)	1.0	3.6	0.7	3.1	-
EBITDA from continuing operations (6)	3.8	1.8	(18.5)	20.3	19.2	8.2	17.4	12.0
Add: Foreign exchange (gain) loss on long-term debt	(4.4)	(4.5)	11.3	(2.5)	-	-	-	-
Gain on sale of right to duty refunds	(12.6)	-	-	-	-	-	-	-
Adjusted EBITDA from continuing operations	(13.2)	(2.7)	(7.2)	17.8	19.2	8.2	17.4	12.0

(1) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, and gain on the Duties Sale.
(2) Source: Bank of Canada, www.bankofcanada.ca.
(3) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.
(4) Average SPF 2x4 #2&Btr and SYP 2x4 #2 lumber prices (US$) divided by average exchange rate.
(5) Source: Random Lengths Publications Inc. - Southern Yellow Pine Westside, per thousand board feet.
(6) The Company's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

Our quarterly financial results are impacted by a variety of market related factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the softwood lumber duty deposit rates on shipments to the US, stumpage rates, and foreign exchange rates. Other micro-level factors that influence quarterly financial trends include operating rates, shipment volumes, raw material and manufacturing costs, and transactions of a non-recurring nature. We rely primarily on third parties for transportation of our products, as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact our operations, cost structure or shipment volumes.

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months at our Canadian mills to ensure adequate supply of fibre during the spring months when logging operations are generally largely curtailed due to unstable road conditions. Operating rates are typically lower, and unit manufacturing costs are typically higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

The application of a "time of delivery factor" to the fixed price provided under the EPA produces a seasonal effect and considerable variability on quarterly revenues from electricity deliveries with the lowest revenues generally generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary up to 30% between the strongest and weakest quarters. As a major portion of the costs of electricity production, as well as interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

The impact on net income of foreign exchange translation gains or losses on US dollar-denominated long-term debt became a significant factor, particularly in the fourth quarter of 2018 and the first half 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 expect the reduction in lumber shipments to follow from the recent announcements of production curtailments from a number of BC lumber producers, coupled with more normal demand will result in better balanced lumber markets and higher prices. We expect lumber prices to gradually increase through the remainder of this year and 2020, and for pricing to stabilize in the mid-term at levels that are reasonably high by historic standards. We continue to believe the factors that shape the mid-term demand for lumber are solid.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

OUTSTANDING SECURITIES

As at August 13, 2019, the Company had 46,923,757 issued and outstanding common shares, 100,000 options granted, 1,907,089 long-term incentive plan awards and 3,500,000 warrants.

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INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2019, there were no changes that have materially affected, or are reasonably likely to materially affect Conifex's internal controls over financial reporting.

ADDITIONAL INFORMATION

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