CONIFEX

CONIFEX TIMBER INC.
FIRST QUARTER 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 10, 2013

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc. for the first quarter ended March 31, 2013 relative to the quarters ended December 31, 2012 and March 31, 2012, and a review of the Company's financial condition and future prospects. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Conifex, prepared in accordance with International Financial Reporting Standards ("**IFRS**") applicable to the preparation of interim financial statements, and accompanying notes for the quarters ended March 31, 2013 and 2012, as well as the 2012 annual MD&A and the December 31, 2012 audited consolidated financial statements and notes thereon which are filed on SEDAR at www.sedar.com.*

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

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

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

FORWARD-LOOKING STATEMENTS

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

SUMMARY OF OPERATING RESULTS AND FINANCIAL POSITION

CONSOLIDATED OPERATING RESULTS

(millions of dollars except share and per share amounts)	Q1 2013	Q4 2012	Q1 2012
Sales -Lumber	58.7	53.3	39.4
- By-products	4.3	4.4	4.5
- Logistic services	3.2	2.3	3.5
Total Sales	66.2	60.0	47.4
Operating income (loss)	6.6	(2.4)	(6.2)
Net income (loss)	6.2	(3.6)	(6.5)
Net income (loss) per share - basic	0.30	(0.18)	(0.38)
Net income (loss) per share - fully diluted	0.29	(0.18)	(0.38)
EBITDA	9.2	(0.3)	(3.8)
Shares outstanding - end of period (millions)	20.8	20.7	19.4
Shares outstanding - weighted average (millions)	20.7	19.6	17.3
Statistics			
Lumber shipments - Conifex product (MMfbm)	119.8	110.2	114.8
Lumber shipments - wholesale (MMfbm)	17.2	37.5	18.8
Lumber production (MMfbm)	124.2	108.4	111.1
Average exchange rate - US$/Cdn$ (1)	0.991	1.009	0.999
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 390	$ 335	$ 267
Average WSPF 2x4 #2&Btr lumber price (Cdn$)	$ 393	$ 332	$ 267
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$362 - $408	$288 - $388	$244 - $289

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

Reconciliation of EBITDA to Net Income (Loss)

(millions of dollars)	Q1 2013	Q4 2012	Q1 2012
Net income (loss)	6.2	(3.6)	(6.5)
Add: Interest expense	0.8	0.9	0.5
Depreciation and amortization	2.0	1.9	1.8
Deferred union payroll liability	(0.3)	(0.2)	-
Share based compensation	0.2	0.3	0.1
Accretion of convertible debentures	0.3	0.3	0.3
EBITDA*	9.2	(0.3)	(3.8) *

May not total exactly due to rounding.

Overview

For the quarter ended March 31, 2013, the Company recorded net income of $6.2 million or $0.29 per fully diluted share on sales of $66.2 million compared to a net loss of $3.6 million or $0.18 per share on sales of $60.0 million during the fourth quarter of 2012, and net loss of $6.5 million or $0.38 per share on sales of $47.4 million during the first quarter of 2012.

First quarter 2013 EBITDA of $9.2 million was comprised of lumber segment EBITDA of $10.5 million offset by negative bioenergy segment EBITDA of $0.2 million and corporate costs and other items of $1.1 million. Lumber segment EBITDA improved by $9.8 million over the previous quarter and $13.2 million over the first quarter of 2012 while EBITDA related to the bioenergy segment and corporate costs and other items remained relatively flat.

At March 31, 2013, the Company had $16.4 million cash and cash equivalents on hand, an increase of $2.3 million from December 31, 2012. During the quarter, the Company received net proceeds of approximately $4.9 million from the issuance of the Notes as described below under "Financing Activities and Liquidity". Lumber segment working capital increased by $7.4 million, with the increase primarily attributable to the seasonal build-up of log inventories. The Company ended the first quarter of 2013 with net debt of $14.1 million and net debt to capitalization ratio of 11%.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Operating Results by Business Segment

(millions of dollars)	**Q1 2013**	**Q4 2012**	**Q1 2012**
Revenue			
Lumber	66.2	60.0	47.4
Bioenergy	-	-	-
	66.2	60.0	47.4
Net Income (Loss)			
Lumber	8.7	(1.2)	(4.6)
Bioenergy	(0.2)	(0.3)	(0.3)
Corporate costs and other items	(2.3)	(2.1)	(1.6)
	6.2	(3.6)	(6.5)
EBITDA			
Lumber	10.5	0.7	(2.7)
Bioenergy	(0.2)	(0.3)	(0.3)
Corporate costs and other items	(1.1)	(0.7)	(0.8)
	9.2	(0.3)	(3.8)

Lumber Segment

Overview

The continuation of the gradual recovery in the U.S. housing market witnessed over the past year has had a positive effect on lumber prices. The lumber price for the bellwether WSPF 2x4 #2 & Btr ("**WSPF**") averaged US$390 during the first quarter of 2013, an increase of 16% ovethe previous quarter and 46% over the first quarter of 2012.[1] During the first quarter of 2013, the Canadian dollar weakened against the U.S. dollar by approximately 2% compared to the previous quarter and 1% compared to the first quarter of 2012.[2] The benchmark lumber price expressed in Canadian dollars averaged $393 during the first quarter of 2013, an increase of $61 per thousand board feet or 18% over the previous quarter and $126 per thousand board feet or 47% over the first quarter of 2012.

The Company continued to experience solid demand from each of its major markets during the first quarter of 2013. Shipment volumes to China held steady at approximately 35% of total shipments during the first quarter of 2013 and the fourth quarter of 2012 but were less compared to the 59% shipped to China during the first quarter of 2012. Earlier last year, Chinese buyers appeared to be more accepting of higher grade products in a lower overall price environment. Approximately 50% of our total shipments went to the U.S. market during the first quarter of 2013, compared to 31% during the previous quarter and 23% during the first quarter of 2012. The change in shipment pattern to the U.S. market was influenced by the relatively higher mill net realizations available as a result of a zero percent export tax rate compared to 8% during the previous quarter and 15% during the first quarter of 2012. Shipments to Japan increased to 8% of our total shipments, and mill net realizations from this market also improved significantly as lags created by quarterly pricing arrangements were largely corrected. Shipments to the Canadian market totalled 8% and were more representative of typical volumes to this market than the unusually high 28% recorded in the fourth quarter of 2012.

Shipments of Conifex produced lumber totalled 120 million board feet, an increase of 9% over the previous quarter and 4% over the first quarter of 2012. Shipments lagged current quarter production volumes by approximately 4%, with the shortfall partially attributable to a broadly experienced temporary rail car shortage which has since eased. Total lumber shipments were 137 million board feet compared to 148 million board feet in the previous quarter and 134 million board feet in the first quarter of 2012. Wholesale lumber shipments totalled 37 million board feet during the previous quarter, almost double the more typical quarterly volume.

The increase in unit gross sales and unit net mill realizations of approximately 19% over the fourth quarter of 2012 largely reflected the quarter over quarter movement in average benchmark lumber prices. Compared to the first quarter of 2012, unit mill net realizations increased by 64% with the increase primarily attributable to a 47% increase in the benchmark lumber price, the elimination of the 15% export tax rate for U.S shipments and the relative weakness in low grade lumber prices during most of the first quarter of 2012 which dampened the average mill net realizations by approximately 8%.

Lumber production totalled 124 million board feet in the first quarter of 2013 and improved annualized operating rates to approximately 67%. The 15% increase in production volumes over the previous quarter and 12% over the first quarter of 2012 resulted in improvements in unit cash conversion costs of 15% and 6% respectively. The benefits of improved lumber recovery of 4% over the previous quarter and 6% over the first quarter of 2012 were offset by an increase in unit log costs of 2% and 23% in the respective quarters.

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

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

The Company recorded a net income of $8.7 million in its lumber segment on sales of $66.2 million for the first quarter of 2013 compared to a net loss of $1.2 million on sales of $60.0 million for the previous quarter and a net loss of $4.6 million on sales of $47.4 million for the same quarter last year. EBITDA in this segment was $10.5 million for the first quarter of 2013 compared to $0.7 million for the previous quarter and negative $2.7 million for the first quarter of 2012.

Compared to the fourth quarter of 2012, lumber segment net income improved by $9.9 million with approximately 50% of the increase attributable to higher mill net realizations, which largely reflects the rise in the average benchmark lumber price and reduction in export tax rate for U.S. shipments, and the balance primarily attributable to lower cost of sales resulting from productivity gains and cost containment. Compared to the first quarter of 2012, the benefits of a significant improvement in mill net realizations and moderate reduction in conversion costs were partially offset by higher unit log costs and resulted in a year over year increase in lumber segment net income of $13.3 million.

<u>Sales</u>
Lumber shipments totalled 137 million board feet during the first quarter of 2013, including wholesale lumber shipments of 17 million board feet. The current quarter wholesale lumber shipments represent more typical volumes compared to the 37 million board feet shipped in the previous quarter. Shipments of Conifex produced lumber increased by 9% over the fourth quarter of 2012 and 4% over the first quarter of 2012 but lagged current quarter production volumes by 4% with some of the shipment shortfall attributable to a tightening in rail car supply which has since eased. Lumber shipments during the first quarter of 2012, including wholesale lumber shipments of 19 million board feet, totalled 134 million board feet.

Gross revenues from lumber shipments during the first quarter of 2013 totalled $58.7 million compared to $53.3 million during the previous quarter and $39.4 million during the first quarter of 2012. The 10% increase over the previous quarter was largely attributable to an 18% increase in per unit gross sales realizations offset by a decrease in wholesale sales volume. The 49% increase over the first quarter of 2012 was represented by a 46% increase in per unit gross sales realizations and a 3% increase in shipment volumes. The increase in per unit gross sales realizations largely reflects the improvement in benchmark lumber prices expressed in Canadian dollar equivalent of 18% compared to the previous quarter and 47% compared to the first quarter of 2012.

During the first quarter of 2013, unit mill net realizations improved by 19% over the previous quarter and by 64% over the first quarter of 2012. The benefit of the elimination of the 8% export tax rate assessed on U.S. shipments in the previous quarter was largely offset by an increase in unit freight costs due to higher shipment volumes outside of Canada and additional costs incurred as a result of temporary rail car shortages during the current quarter. The improvement in mill net realizations over the first quarter of 2012 is primarily attributable to a 47% increase in the benchmark price, the elimination of the 15% export tax charged on U.S. shipments, and the unusually wide discount in low grade lumber prices during most of the first quarter of 2012.

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

	Q1 2013	Q4 2012	Q1 2012
By Revenue (net of freight)			
Canada	7%	31%	15%
USA	53%	32%	25%
Japan	10%	6%	4%
China and other	30%	31%	56%
	100%	100%	100%
By Shipment Volume			
Canada	8%	28%	15%
USA	50%	31%	23%
Japan	8%	5%	3%
China and other	34%	36%	59%
	100%	100%	100%

The Company continued to experience solid demand from each of its major markets during the first quarter of 2013. The increase in shipments to the U.S. market during the first quarter of 2013 reflects the strong underlying demand from that market and the relatively higher mill net realizations available as a result of the zero percent export tax rate. Shipments to China remained steady at approximately 35% of total volumes during the first quarter of 2013 and the previous quarter compared to 59% during the first quarter of 2012 when purchases from China included more volumes of higher grades of lumber in a lower price environment. Shipments to Japan increased to 8% of total volumes during the first quarter of 2013 and mill net realizations from this market materially increased over the previous quarter as pricing lags created by quarterly agreements were alleviated.

Revenue from chips and other residuals in each of the comparative quarters were similar at approximately $4.4 million. Compared to the fourth quarter of 2012, a modest increase in unit prices during the more recent quarter for residual chips, which are related to fluctuations in NBSK pulp prices, was largely offset by a decline in shipment volumes. Compared to the first quarter of 2012, a 7% increase in shipment volumes was offset by a 10% decline in unit chip prices.

Revenue from the provision of freight and logistics services during the first quarter of 2013 totalled $3.2 million and represented a seasonal increase of 42% over the previous quarter, and a decrease of 9% from the first quarter of 2012.

<u>Production and Operations</u>
Operating rates were approximately 67% for the first quarter of 2013, 58% for the fourth quarter of 2012 and 60% for the first quarter of 2012. We calculate operating rates based on production volumes during the period and total estimated annual production capacity of 745 million board feet.

Lumber production totalled 124 million board feet in the first quarter of 2013 and represented an increase of 15% over the fourth quarter of 2012 and 12% over the first quarter of 2012. Average hourly production increased by 10% over the previous quarter and 17% over the first quarter last year. Factors contributing to the productivity gains included the recent management restructuring, the processing of a more sustainable and representative log diet, a minor capital upgrade at the Fort St. James mill in December, a more effective maintenance regime partially attributable to the performance improvement project at Fort St. James, and the benefits of heightened focus on leadership training and continuous improvement.

Overall unit log costs during the first quarter of 2013 declined by 2% compared to the previous quarter as a modest increase in the cost of logs was more than offset by a 4% improvement in lumber recovery. Compared to the first quarter of 2012, a 6% increase in lumber recovery was outweighed by a 23% increase in average delivered log costs with the increase primarily attributable to higher stumpage costs, which are linked to lumber selling prices, and a shift towards a more sustainable and representative log diet.

The improvement in unit cash conversion costs during the first quarter of 2013 of approximately 15% over the previous quarter mirrors the hourly productivity gains and emphasizes the achievement of the gain without an increase in whole dollar spending on conversion costs. Unit cash conversion costs improved by 6% during the current quarter compared to the first quarter of 2012. Other items impacting cost of goods sold included a provision for variable compensation recorded in the first quarter of 2013 and a management restructuring charge of $0.7 million recorded in the fourth quarter of 2012.

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

Freight and distribution costs related to shipments of Conifex produced lumber on a per unit basis in the first quarter of 2013 were flat to the first quarter of 2012 and increased by 10% over the previous quarter. The increase was primarily attributable to the higher shipment volumes to the U.S. market and a reduction to more typical shipment volumes to the Canadian market, and higher costs associated with alternative freight movements as a result of temporary rail car shortages.

The export tax rate on shipments to the U.S. was zero percent during the first quarter of 2013 compared to 8% during the fourth quarter of 2012 and 15% during the first quarter of 2012. Export taxes totalled $0.7 million during the previous quarter and $1.1 million during the first quarter of 2012.

Bioenergy Segment

In March 2011, the Company initiated the Bioenergy Project at our Mackenzie sawmill site, originally scheduled for commercial production of electricity in the third quarter of 2013. The Bioenergy Project consists of constructing a 36 megawatt biomass power plant in Mackenzie, British Columbia adjacent to our currently idled site I sawmill complex within an existing building with supporting infrastructure that formerly housed a newsprint production facility. The existing power generation assets and related infrastructure should allow our Bioenergy Project to be developed at a lower capital cost than a comparable greenfield project.

In late 2012, with major equipment on site and initial construction completed as planned before winter, the Company decided that, in order to further continued development of the project and secure satisfactory long-term financing, essential engineering and equipment procurement activities would continue but installation and construction activities would be temporarily suspended. The Bioenergy Project was approximately 30% complete and on budget and on time when construction activities were temporarily suspended.

The Company is currently assessing the impact of the suspension of construction activity on the project schedule, reviewing the capital expenditure budget and completing further engineering and design work on the project. To facilitate these activities, in February 2013, the Company's wholly-owned subsidiary, Conifex Power Limited Partnership ("**CP Partnership**"), completed a $5 million senior secured financing as described below under "Financing Activities and Liquidity". Upon completion of such assessment, the Company plans to provide a further update on expected project timelines and the budget.

The Company expects to be in a position to approach prospective project lenders during the second quarter of 2013 and work towards a commercial operation date of the power generation plant in the third quarter of 2014. A material delay in securing long-term financing for the Bioenergy Project could delay the overall development of the Bioenergy Project, including the anticipated commercial operation date. At this time, there can be no assurance when satisfactory financing for the Bioenergy Project will be obtained, if at all.

Capital expenditures related to the Bioenergy Project totalled $1.3 million during the first quarter of 2013 and $30.8 million since the inception of the project. The Company does not intend to commit any significant further capital to the project until the engineering work has been completed and long-term project financing has been secured.

The net loss reported in the bioenergy segment in each of the comparative periods arises primarily from professional fees and costs related to holding idled facilities such as insurance premiums and property tax.

Corporate costs and other items

(millions of dollars)	Q1 2013	Q4 2012	Q1 2012
Corporate costs	1.6	0.9	0.7
Borrowing costs	0.8	0.9	0.5
Foreign exchange (gain) loss	(0.4)	-	0.2
Accretion of convertible debenture	0.3	0.3	0.2
	2.3	2.1	1.6

Corporate costs have remained relatively stable in each of the comparative quarters with the increase in the first quarter of 2013 attributable primarily to a provision for variable compensation costs as a result of improved operating performance. Borrowing costs are comprised of interest expense and amortization of costs related to debt placement and issuance of share purchase warrants. The increase in borrowing costs during the first quarter of 2013 relative to the first quarter of 2012 is attributable primarily to the scheduled increase effective in December 2012 of the interest rate on our convertible notes from 2.50% to 10.50%. The increase in borrowing costs during the fourth quarter of 2012 is due primarily to a reclassification of certain financing related costs from selling, general and administrative expense. The foreign exchange gain of $0.4 million during the first quarter of 2013 and loss of $0.2 million during the first quarter of 2012 represents net translation and transaction gains or losses arising from conversion of U.S. denominated assets and liabilities into Canadian dollars at the prevailing exchange rates.

Income tax

Conifex has not recognized current income tax expense during the first quarter of 2013 as the Company had non-capital loss carry forwards totalling approximately $31.6 million as at December 31, 2012. Although the Company expects to realize the full benefits of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefits of its deferred tax assets available to reduce future taxable income.

FINANCIAL POSITION AND CASH FLOW

SELECTED CASH FLOW ITEMS

(millions of dollars)	**Q1 2013**	**Q4 2012**	**Q1 2012**
Operating Activities			
Cash provided (used) before working capital changes	10.7	(1.0)	(2.6)
Non - cash working capital change	(7.4)	0.4	(13.2)
Cash provided from (used) in operating activities	3.3	(0.6)	(15.8)
Investing Activities			
Additions to property, plant, equipment	(4.8)	(8.3)	(4.4)
Proceeds on disposal of assets held for sale	-	-	0.2
Cash used in investing activities	(4.8)	(8.3)	(4.2)
Financing Activities			
Net proceeds from private placement	-	8.6	26.9
Proceeds from secured notes	5.0	-	-
Repayment of loans	(0.4)	(0.4)	(0.4)
Interest expense paid	(0.8)	-	(0.1)
Cash provided from financing activity	3.8	8.2	26.4
Change in cash	2.3	(0.7)	6.4

Cash provided from (used in) non-cash working capital items

(millions of dollars)	**Q1 2013**	**Q4 2012**	**Q1 2012**
Trade and other receivables	(3.5)	(0.1)	(5.9)
Inventories	(10.3)	0.6	(12.5)
Accounts payable, accrued liabilities and other payables	6.0	2.1	4.6
Other	0.4	(2.2)	0.6
Cash provided from (used in) non cash working capital	(7.4)	0.4	(13.2)

Due to significantly improved profitability in its lumber segment, the Company generated positive cash flow of $10.7 million before working capital changes during the first quarter of 2013 compared to cash usage of $1.0 million during the previous quarter and $2.6 million during the first quarter of 2012. During the first quarter of 2013, working capital changes required net cash usage of $7.4 million with a build-up of seasonal log inventories consuming $10.3 million, higher accounts receivables due primarily to higher prices requiring $3.5 million, partially offset by an increase in accounts payable of $6.0 million. The net effect of non-cash working capital items on cash requirements was neutral during the fourth quarter of 2012. During the first quarter of 2012, incremental cash of $13.2 million was used in non-cash working capital items. The increase in accounts receivable of $5.9 million and inventories of $12.5 million was partly offset by an increase in accounts payable of $4.6 million. The increase in accounts receivable was due to slightly higher prices during that period and transactions generated from the Company's then newly acquired wholesale lumber and third party logistics businesses. Approximately 85% of the increase in inventory was attributable to a build-up of log inventories, with the balance attributable to the addition of wholesale lumber inventories.

Investments in capital items on a cash basis totalled $4.8 million during the first quarter of 2013 and included approximately $1.0 million in the lumber segment on the completion of a minor capital upgrade project at Fort St. James and various maintenance and safety related items, and $3.8 million on the Bioenergy Project of which $2.5 million had been capitalized during the previous quarter. Investing activities during the fourth quarter of 2012 included $6.0 million of expenditures related to the Bioenergy Project and $2.3 million on lumber segment capital improvements including harmonization and modernization of dated technology and equipment. Investment activities during the first quarter of 2012 totalled $4.4 million and included the installation of an automated lumber grading system at Mackenzie and expenditures related to the Bioenergy Project.

Cash provided from financing activities during the first quarter of 2013 totalled $3.8 million with gross proceeds of $5.0 million from the issuance of the Notes (as described below) offset by the quarterly repayment of $0.4 million of the Community Adjustment Fund Loan (the "**CAF Loan**") and cash interest expenses of $0.8 million. Financing activities during the previous quarter included net proceeds of approximately $8.6 million from a private placement of common shares and common share purchase warrants and repayment of the CAF Loan of $0.4 million. Financing activities during the first quarter of 2012 included the receipt of net proceeds of approximately $26.9 million from a private placement of common shares and the repayment of the CAF Loan of $0.4 million.

Cash and cash equivalents increased by $2.3 million during the first quarter of 2013 and by $6.4 million during the first quarter of 2012 and decreased by $0.7 million during the fourth quarter of 2012. The Company had cash and cash equivalents on hand of $16.4 million at March 31, 2013, compared to $14.1 million at December 31, 2012 and $19.1 million at March 31, 2012. The Company ended the first quarter of 2013 with net debt of $14.1 million and net debt to capitalization ratio of 11%.

FINANCING ACTIVITIES AND LIQUIDITY

Closing of senior secured financing by Conifex Power Limited Partnership

On February 21, 2013, CP Partnership completed a senior secured financing agreement under the terms of which CP Partnership issued promissory notes (the "**Notes**") in the aggregate principal amount of $5 million. The Notes will expire on February 21, 2014 and bear interest at a rate of 12% per annum. CP Partnership may redeem the Notes, in whole or in part, at any time on or after four months from the issue date of the Notes upon 15 days' notice and payment of interest accrued on the amount redeemed to the date of redemption, but otherwise at par.

As additional consideration for the loan, the Company issued non-transferrable share purchase warrants entitling the holders to purchase up to an aggregate of 160,417 common shares of the unissued capital stock of the Company at a price of $9.50 per share until February 21, 2016.

The primary purpose of the financing was to advance development activity on our Bioenergy Project to support long-term financing initiatives.

Liquidity

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

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

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

On April 2, 2013, the Company completed a $25 million senior secured revolving asset backed credit facility (the "**Facility**") as described under "Subsequent Events". The Facility was obtained to provide an additional source of funds to support the Company's considerable investment in non-cash working capital, consisting primarily of accounts receivable and inventory, and to further optimize marketing and manufacturing activities in its lumber segment, as permitted by the Facility. The Company intends to reinvest a portion of cash flow generated from operations towards capital expenditures including major maintenance items and projects with an expected high rate of return to help make further gains in mill productivity and profitability.

The Company is working towards securing construction and long-term financing for its Bioenergy Project.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary	2013	2012				2011		
(millions of dollars except share and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales -Lumber	58.7	53.3	46.1	45.6	39.4	34.0	33.7	22.5
- By-products	4.3	4.4	5.1	5.6	4.5	4.7	4.4	4.4
- Logistic services	3.2	2.3	3.2	4.6	3.5	-	-	-
Total Sales	66.2	60.0	54.4	55.8	47.4	38.7	38.1	26.9
Operating income (loss)	6.6	(2.4)	(2.8)	(1.6)	(6.2)	(6.8)	(3.3)	(4.1)
Net income (loss)	6.2	(3.6)	(3.7)	(2.4)	(6.5)	(7.5)	(2.2)	(3.6)
Net income (loss) per share - basic	0.30	(0.18)	(0.19)	(0.13)	(0.38)	(0.49)	(0.14)	(0.24)
Net income (loss) per share - diluted	0.29	(0.18)	(0.19)	(0.13)	(0.38)	(0.49)	(0.14)	(0.24)
EBITDA	9.2	(0.3)	(0.5)	0.6	(3.8)	(5.2)	0.6	(0.8)
Shares outstanding - end of period (millions)	20.8	20.7	19.4	19.4	19.4	15.2	15.2	15.2
Shares outstanding - weighted average (millions)	20.7	19.6	19.4	19.4	17.3	15.2	15.2	15.2
Statistics								
Lumber shipments - Conifex product (MMfbm)	119.8	110.2	107.5	111.7	114.8	116.7	109.6	76.2
Lumber shipments - wholesale (MMfbm)	17.2	37.5	19.2	19.4	18.8	-	-	-
Lumber production (MMfbm)	124.2	108.4	102.8	102.1	111.1	94.9	101.6	102.4
Average exchange rate - US$/Cdn$ (1)	0.991	1.009	1.005	0.990	0.977	0.981	1.020	1.0335
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 390	$ 335	$ 301	$ 296	$ 267	$ 239	$ 246	$ 240
Average WSPF 2x4 #2&Btr lumber price (Cdn$)	$ 393	$ 332	$ 299	$ 299	$ 267	$ 244	$ 241	$ 232

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

Reconciliation of EBITDA to Net Loss	2013	2012				2011		
(millions of dollars)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net income (loss)	6.2	(3.6)	(3.7)	(2.4)	(6.5)	(7.5)	(2.2)	(3.6)
Add: Interest expense	0.8	0.9	0.5	0.5	0.5	0.3	0.1	0.1
Depreciation and amortization	2.0	1.9	1.9	1.8	1.8	1.6	1.8	1.7
Deferred union payroll liability	(0.3)	(0.2)	-	-	-	(0.1)	0.3	0.5
Share based compensation	0.2	0.3	0.4	0.2	0.1	0.2	0.3	0.2
Accretion of convertible debentures	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Loss on disposal of assets	0.0	-	0.1	0.2	-	-	-	-
EBITDA*	9.2	(0.3)	(0.5)	0.6	(3.8)	(5.2)	0.6	(0.8)

*May not total exactly due to rounding.

The Company’s financial results are impacted by a variety of market related factors including fluctuation in lumber prices, fluctuations in other commodity prices which impacts by-product revenue and manufacturing costs, and changes in foreign exchange rates. Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Other more company specific factors that influence quarterly trends include operating rates and transactions of a non-recurring nature.

The Fort St. James mill and the Mackenzie Site II mill have been operating on a two shift basis since the second quarter of 2011.

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

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

SUBSEQUENT EVENTS

Completion of $25 million senior secured revolving credit facility and discharge of 12% senior secured notes

On April 2, 2013, the Company completed a $25 million senior secured revolving asset backed credit facility with a leading Canadian chartered bank. The Facility is available for a term of three years.

A portion of the Facility, together with cash on hand, was used to repay in full the previously issued 12% senior secured notes of the Company, in the principal amount of $12 million. Conifex intends to utilize the Facility for working capital and for other permitted general corporate purposes.

OUTLOOK AND STRATEGY

Management intends to maintain its focus on operational improvements that will lead to further increases in lumber segment profitability. As benefits from non-capital improvements have been largely realized, the Company intends to expand its focus to discretionary capital expenditure projects targeted to maintain current production capacity, further address safety and environmental matters and enhance productivity and profitability of our operations.

The Company also is working towards developing detailed multi-year capital expenditure plans for the Fort St. James and Mackenzie sites.

In terms of softwood lumber markets, management believes the U.S. housing recovery has momentum, as U.S. housing indicators point towards a solid recovery with recent improvements in key metrics such as home prices, new and existing home sales and affordability. Management anticipates that the continuation of firm demand for softwood lumber from each of its major markets will sustain generally higher price levels for the balance of the year but also expects pricing volatility to continue.

Management and the Bioenergy Project development team will continue to work on activities related to securing construction and long-term financing for the project.

OUTSTANDING SECURITIES

As at May 10, 2013, the Company had 20,753,069 issued and outstanding common shares, 100,000 options granted under the Company’s stock option plan dated June 3, 2010, 713,976 long-term incentive plan awards, 1,150,200 warrants, and stepped rate subordinated convertible promissory notes in the aggregate principal amount of $9,942,000, which notes are convertible into a maximum of 1,242,750 common shares of the Company, excluding any common shares issuable in payment of accrued interest thereon.

CHANGES IN ACCOUNTING POLICY

The Company has adopted the following new and amended standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions. For a description of the new and revised standards refer to note 2 of our 2012 financial statements.

IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities

The Company has assessed its consolidation conclusion and determined that the adoption of these IFRS's did not result in any changes in the consolidation status of any of its subsidiaries.

IFRS 13 – Fair Value Measurement

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used to measure fair value and did not result in any measurement adjustments.

Amendments to *IAS 1 – Presentation of Financial Statements*

The adoption of the amendments to IAS 1 did not result in any adjustments to other comprehensive income.

RISKS AND UNCERTAINTIES

A discussion of the risks and uncertainties to which the Company is subject is included in the Company's most recent Annual Information Form which is available on www.sedar.com and www.conifex.com.

ADDITIONAL INFORMATION

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