CONIFEX

CONIFEX TIMBER INC.
FIRST QUARTER 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 9, 2014

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc. for the quarter ended March 31, 2014 relative to the quarters ended December 31, 2013 and March 31, 2013, the Company's financial condition and future prospects. This interim MD&A should be read in conjunction with Conifex's unaudited condensed consolidated interim financial statements and accompanying notes for the quarters ended March 31, 2014 and 2013, as well as the 2013 annual MD&A and the December 31, 2013 audited consolidated financial statements and notes thereon which are filed on SEDAR at www.sedar.com. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards.*

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**" and the "**Company**" mean Conifex Timber Inc., together with its subsidiaries, unless the context otherwise requires.*

FORWARD-LOOKING STATEMENTS

This interim MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to its expectations, beliefs, assumptions, estimates and forecasts about its business and the industries and markets in which it operates. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; our expectation for the export tax rate assessed on lumber shipments to the U.S.; our expectation for mill net realizations; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; benefits that may accrue to the Company as a result of certain capital expenditure programs, such as the lumber segment capital plan, *equipment upgrades and maintenance shutdowns; and the anticipated benefits, cost, timing and completion dates for projects, including the Power Generation Project.*

Assumptions underlying the Company's expectations regarding forward-looking information contained in this interim MD&A include, among others: that the Company will be able to effectively market its products; that the U.S. housing market will continue to improve; that there will be no unforeseen delays or disruptions affecting the completion of the Power Generation Project and that the Company will be able to commence timely delivery of power therefrom; that softwood lumber will experience improved and sustained demand in the marketplace at favourable prices; that the export tax rate on U.S. lumber shipments will be less than the maximum rate; that the Company will be able to dynamically respond to shifts in demand among its major markets; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; the ability of the Company to obtain financing (if necessary) on acceptable terms or at all; that interest and foreign exchange rates will not vary materially from current levels; and that our mills and equipment will operate at expected levels.

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's 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 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 27, 2014 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities law.

SIGNIFICANT DEVELOPMENTS

Acquisition of Lignum Forest Products LLP

On February 3, 2014, the Company completed the acquisition of Lignum Forest Products LLP ("Lignum"), a private partnership which operates a lumber marketing and distribution business. Lignum is an established and well respected name in the forestry and lumber distribution business in British Columbia. Lignum serves customers and distributes products that the Company believes are complementary to those of Conifex. Lignum provides extensive market reach in the North American market through a network of established inventory locations. The aggregate purchase price of approximately $4.8 million was funded from the Company's existing available cash.

The Company will continue to operate its lumber distribution business through its wholly-owned subsidiaries, Conifex Fibre Marketing Inc., Navcor Transportation Services Inc. ("Navcor") and Lignum. In addition to arranging for the distribution of products manufactured by Conifex and the wholesale lumber business undertaken by Conifex Fibre Marketing Inc. and Lignum, Navcor will continue to provide logistics and consulting services to third parties. Each of these companies operates as an independent profit centre.

The Company expects that contribution margins provided by wholesale lumber transactions and third party logistics business will reduce overall marketing and distribution costs and enhance its ability to attract and retain an extensive professional team with considerable market access and expertise on a cost effective basis. The Company believes its internal marketing and logistics capabilities expands opportunities to quickly shift products between its key markets, optimize freight costs and services, and provide comprehensive direct market coverage.

Ratification of Collective Agreement with United Steel Workers

The Company's collective labour agreement with the United Steel Workers union expired on June 30, 2013. A new five-year collective agreement was ratified at the Fort St. James and Mackenzie mills in March and April 2014, respectively. The agreement has retroactive effect to July 1, 2013 and expires on July 1, 2018.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

Selected Financial Information

(millions of dollars, except share and per share amounts, unaudited)	Q1 2014	Q4 2013	Q1 2013
Sales	67.2	63.7	66.2
Operating Income by Segment			
Lumber	4.4	3.3	8.4
Bioenergy	-	-	(0.2)
Corporate and other	(1.6)	(1.1)	(1.6)
	2.8	2.2	6.6
EBITDA by Segment			
Lumber	7.1	5.5	10.5
Bioenergy	-	-	(0.2)
Corporate and other	(1.0)	(0.6)	(1.1)
	6.1	4.9	9.2
Net income	1.6	1.1	6.2
Net income per share - basic	0.08	0.05	0.30
Net income per share - diluted	0.08 (1)	0.05 (2)	0.29
Shares outstanding - weighted average (millions)	20.8	20.8	20.7
Average exchange rate - US$/Cdn$ (3)	0.906	0.953	0.991
Reconciliation of EBITDA to Net Income			
Net income	1.6	1.1	6.2
Add: Interest expense and accretion	1.5	1.5	1.1
Amortization	2.6	2.2	2.0
Non-cash items related to compensation	0.4	0.1	(0.1)
EBITDA	6.1	4.9	9.2

(1) Applicable to the first quarter of 2014: The conversion of convertible notes is anti-dilutive and is excluded from the calculation of diluted net income per share.
(2) Applicable to the fourth quarter of 2013: The conversion of convertible notes and inclusion of outstanding warrants is anti-dilutive and is excluded from the calculation of diluted net income per share.
(3) Source: Bank of Canada website www.bankofcanada.ca

For the quarter ended March 31, 2014, the Company recorded net income of $1.6 million or $0.08 per diluted share on sales of $67.2 million compared to net income of $1.1 million or $0.05 per diluted share on sales of $63.7 million during the fourth quarter of 2013, and net income of $6.2 million or $0.29 per diluted share on sales of $66.2 million during the first quarter of 2013.

The improvement in lumber segment operating income by $1.1 million over the previous quarter was largely attributable to higher unit mill net realizations which more than offset lower shipment volumes of Conifex produced lumber and increases in unit log costs and unit cash conversion costs. The decline of $4.0 million in lumber segment operating income from the first quarter of 2013 was primarily the result of steeper increases in unit log costs and unit cash conversion costs and lower shipment volumes, which were somewhat offset by an improvement in unit mill net realizations and by-product revenue. Fluctuations in corporate and other costs and bioenergy segment costs between the comparative quarters were modest and did not have a material impact on overall operating results.

First quarter 2014 EBITDA of $6.1 million was comprised of lumber segment EBITDA of $7.1 million offset by corporate costs and other items of $1.0 million. Lumber segment EBITDA improved by $1.6 million over the previous quarter and declined by $3.4 million from the first quarter of 2013.

At March 31, 2014, the Company had cash on hand of $7.9 million compared to $18.6 million at December 31, 2013. A quarter over quarter increase in net non-cash working capital of $30.8 million primarily reflected planned incremental investments in log and finished lumber inventories to support higher production levels, seasonal log build , and increased direct export shipments and an unplanned, higher than usual lumber inventories due to industry wide transportation challenges. The Company believes working capital requirements peaked towards the end of the first quarter of 2014 and expects a return to more normalized inventory levels over the next several months. The Company ended the first quarter of 2014 with consolidated net debt of $87.1 million (December 31, 2013 - $44.0 million) and net debt to capitalization ratio of 42% (December 31, 2013 – 27%). At March 31, 2014, excluding borrowings under the project financing facility related to the Power Generation Project (as described below), which is largely structured on a non-recourse basis to the lumber segment assets and to the parent company, Conifex Timber Inc., net debt was $48.2 million (December 31, 2013 - $21.2 million) and the net debt to capitalization ratio was 29% (December 31, 2013 – 15%).

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, except share and per share amounts, unaudited)	Q1 2014	Q4 2013	Q1 2013
Sales -Lumber - Conifex product	44.9	51.0	51.9
- Lumber - wholesale	13.2	4.3	6.8
- By-products	5.7	5.3	4.3
- Logistics services	3.4	3.1	3.2
Total Sales	67.2	63.7	66.2
EBITDA	7.1	5.5	10.5
Amortization	2.6	2.1	2.0
Other adjustments and non-cash items	0.1	0.1	0.1
Operating income	4.4	3.3	8.4
Statistics			
Lumber shipments - Conifex product (MMfbm)	95.9	118.6	119.8
Lumber shipments - Wholesale (MMfbm)	24.9	9.2	17.2
Lumber production (MMfbm)	128.3	116.3	124.2
Average exchange rate - US$/Cdn$ (1)	0.906	0.953	0.991
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 367	$ 370	$ 390
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$ 405	$ 388	$ 393
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$354-$376	$355-$385	$362-$408

(1) Source: Bank of Canada website www.bankofcanada.ca
(2) Source: Randoms Length Publications Inc.
(3) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate

<u>Overview</u>

According to data published by the U.S. Census Bureau, U.S. housing starts averaged a seasonally adjusted annualized rate of 923,000 over the first quarter of 2014, which represented a decline of 8% from the fourth quarter of 2013 and 4% from the first quarter of 2013. The lumber price for the bellwether WSPF 2x4 #2 & Btr ("**WSPF**") averaged US$367 during the first quarter of 2014. The decline in the benchmark price of 1% from the previous quarter and 6% from the first quarter of 2013 was more than offset by the weaker Canadian currency, which declined by 5% and 9%, respectively. The benchmark lumber price expressed in Canadian dollars averaged $405 during the first quarter of 2014, an increase of $17 per thousand board feet or 4% over the previous quarter and $12 per thousand board feet or 3% over the first quarter of 2013.

Industry analysts largely attributed the subdued level of new home construction activity during the first quarter of 2014 to the unusually severe winter weather conditions experienced across many regions in North America. In Western Canada, seasonal railcar shortages were heightened by the adverse winter conditions and the shipping environment was further exacerbated in March 2014 by a truckers' strike at the main container port in Vancouver, British Columbia. As a result of the logistics related challenges, shipments of Conifex produced lumber totalled 96 million board feet during the first quarter of 2014 which represented a decline of approximately 20% from the previous quarter and the first quarter of 2013. Production volumes, also somewhat hampered by weather related operational challenges, totalled 128 million board feet and reflected an increase of 10% over the previous quarter and 3% over the first quarter of 2013. The Company expects lumber inventory levels to normalize over the next several months, as subsequent to quarter end, railcar availability showed signs of improvement and container shipments resumed through the port of Vancouver.

The Company continued to experience steady demand from its key markets, and export shipments of Conifex produced lumber accounted for 36% of overall volumes despite shipments to China and Japan being held back by the aforementioned work stoppage at the Vancouver port. The export tax rate on shipments to the U.S. was zero percent during the first quarters of 2014 and 2013 and averaged 2% during the fourth quarter of 2013.

With the addition of Lignum, the Company expects wholesale lumber shipments and revenues will represent a larger proportion of total lumber shipment volumes and gross revenues. Because the gross margin earned on wholesale lumber transactions and provision of third party logistic services is relatively modest compared to the Company's core fibre management and lumber manufacturing operations, the Company views the contribution margins provided by these ancillary businesses primarily as a means to reduce overall marketing and distribution costs and maintain considerable internal expertise on a cost effective basis.

The lumber segment recorded operating income of $4.4 million for the first quarter of 2014 compared to $3.3 million in the fourth quarter of 2013 and $8.4 million in the first quarter of 2013. Lumber segment EBITDA of $7.1 million improved by $1.6 million over the previous quarter and declined by $3.4 million from the first quarter of 2013.

Compared to the fourth quarter of 2013, the main factors contributing to the increase of $1.1 million in operating income included a 9% improvement in unit mill net realizations and a modest increase in revenue from by-products which more than offset a 19% decline in shipment volume of Conifex produced lumber, a 5% increase in unit log costs and a 4% increase in unit cash conversion costs. Compared to the first quarter of 2013, the decline of $4.0 million in operating income was primarily attributable to the adverse impact of a 13% increase in unit log costs, a 21% increase in unit cash conversion costs and a 20% decline in shipment volumes, partially offset by a 4% improvement in unit mill net realizations and a 33% increase in by-product revenue.

Management expects that anticipated solid demand in each of the Company's markets in North America, China and Japan for the balance of the year will result in average U.S. benchmark lumber prices approximating levels similar to those of 2013, and higher year over year unit mill nets to be realized if the Canadian currency remains at relatively weaker ranges. Management expects improvement in unit cash conversion costs, which were higher than usual in the current quarter due partly to seasonal and weather related factors and non-recurring events, to result from further productivity gains and a return to a more typical cost environment. These gains are expected to more than offset higher log and labour costs and contribute to further growth in lumber segment profitability.

<u>Sales</u>

Lumber shipments of Conifex produced lumber totalled 96 million board feet during the first quarter of 2014 and represented a decline of approximately 20% from the previous quarter and the first quarter of 2013. Wholesale lumber shipments totalled 25 million board feet and reflected an increase of approximately 16 million board feet over the previous quarter and 8 million board feet over the first quarter of 2013. The increase in wholesale lumber shipments is generally attributable to the addition of Lignum shipments from February 2014 and the variability which typically characterizes the wholesale lumber trading sector.

Gross revenues from lumber shipments during the first quarter of 2014 totalled $58.1 million, an increase of 5% over the previous quarter and relatively flat compared to the first quarter of 2013. Compared to the previous quarter, although gross lumber revenues from Conifex produced lumber declined by 12%, unit gross sales realizations and unit mill net realizations improved by 9% and compare favourably to Canadian equivalent benchmark prices which increased by 4% quarter over quarter. The better than trend improvement in unit mill net realizations is partly attributable to shipments of a higher value product mix, because shipments to the U.S. increased while shipments to China, which generally consumes lower grade lumber products, decreased. Compared to the first quarter of 2013, gross lumber revenues from Conifex produced lumber declined by 14% while unit gross sales realizations increased by 8% and unit mill net realizations increased by 4%. The 4% difference between the unit gross sales and unit mill net realizations is primarily attributable to an increase in unit freight costs due to the weaker Canadian currency and higher costs associated with alternative freight movements.

The table below shows the percentage of net lumber revenue earned from and volume shipped to each geographic market (based on Conifex produced lumber).

(unaudited)	**Q1 2014**	**Q4 2013**	**Q1 2013**
By Revenue (net of freight)			
Canada	13%	10%	8%
USA	53%	39%	56%
Japan	10%	13%	9%
China and other	24%	38%	27%
	100%	100%	100%
By Shipment Volume			
Canada	13%	10%	8%
USA	51%	36%	53%
Japan	7%	9%	8%
China and other	29%	45%	31%
	100%	100%	100%

The Company continued to experience steady demand from each of its major markets during the first quarter of 2014. Although shipment patterns during the first quarters of 2014 and 2013 were similar, current quarter shipments were influenced by logistical constraints and equipment availability, while the shipment pattern in the same quarter last year was shaped primarily by market demand and pricing. The higher shipment levels to the U.S. market in the first quarter of 2013 were influenced by the availability of relatively higher mill net realizations compared to other markets. Compared to the fourth quarter of 2013, improvements in unit mill net realizations were generally spread evenly across each of the key markets. Compared to the first quarter of 2013, unit mill net realizations from the Japanese market showed considerable improvement while gains from each of the other markets were more modest.

Revenue from chips and other residuals increased by 7% over the previous quarter with the increase entirely attributable to an improvement in unit prices for residual chips, which are related to fluctuations in NBSK pulp prices. Compared to the first quarter of 2013, an increase in revenue from by-products of approximately 33% was primarily attributable to an increase in unit prices, as shipment volumes were relatively flat.

Production and Operations

Lumber production totalled 128 million board feet in the first quarter of 2014 and represented an annualized operating rate of 98% (excluding lumber capacity attributed to the idled sawmill) compared to 89% in the previous quarter and 95% in the first quarter of 2013. The annual lumber capacity of the Company's two operating sawmills on a two-shift basis is approximately 525 million board feet.

The 10% increase in production volume over the previous quarter was mostly due to a 7% increase in operating hours and a 3% increase in hourly productivity, while the more modest 3% increase over the first quarter of 2013 was due primarily to improvements in hourly productivity. Overall productivity in the fourth quarter of 2013 was held back due to the integration of a number of capital projects and to a seasonal reduction in operating hours. As productivity and sawmill uptime was somewhat hampered by unusually cold winter weather during the first quarter of 2014, the Company expects further production gains in the subsequent quarter.

Overall cost of goods sold increased by 6% over the fourth quarter of 2013 and 10% over the first quarter of 2013. Costs of goods sold include costs related to the raw materials and manufacturing of Conifex produced lumber, purchases of wholesale lumber and freight procurement costs related to third party revenue generated by Navcor. 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.

Overall unit log costs during the first quarter of 2014 increased by 5% over the fourth quarter of 2013 and 13% over the first quarter of 2013 with the increases substantially due to an increase in average delivered log costs as lumber recoveries generally remained consistent in each of the comparative quarters. The increase in delivered log costs is generally attributable to costs associated with increased stumpage rates, logging and hauling rates, and purchased log costs.

The improvement in production during the first quarter of 2014 somewhat moderated increases in unit cash conversion costs of approximately 4% over the previous quarter and 21% over the first quarter of 2013. The increase over the previous quarter was primarily attributable to seasonal factors including higher energy costs and greater use of contractor services and rental equipment. In addition to these factors, the increase over the first quarter of 2013 was also due to higher labour costs, continued focus on dust mitigation and clean-up activities and heightened maintenance practices.

Freight and distribution costs related to shipments of Conifex produced lumber on a per unit basis in the first quarter of 2014 increased by 9% over the previous quarter and 25% over the first quarter of 2013. The increase was primarily attributable to the weaker Canadian currency as freight costs outside of Canada are typically denominated in U.S. dollars, variations in shipping patterns, and higher costs associated with alternative freight movements as a result of temporary rail car shortages and prolonged shipment disruption at the main container port in Vancouver, British Columbia.

Bioenergy Segment

The main activities planned for the bioenergy segment are to create power generation capacity at the Company's Mackenzie facility to generate renewable energy for commercial sale (the "Power Generation Project") and to pursue additional investment opportunities in bioenergy and bioproducts which are complementary to the Company's harvesting and manufacturing operations. The Company's wholly-owned subsidiary, Conifex Power Limited Partnership ("CP Partnership"), is developing the Power Generation Project adjacent to the Mackenzie Site I sawmill complex. The project involves upgrading the existing power island infrastructure, installing a new 36 MW turbine, supplying electricity to the Mackenzie operations under a Load Displacement Agreement and selling electricity under an Electricity Purchase Agreement with BC Hydro. Both agreements have 20-year terms.

The Power Generation Project is currently on budget and proceeding as scheduled, with an expected commercial operation date late in the third quarter of 2014. Critical path procurement, engineering and construction activities are generally progressing as expected despite unusually cold winter weather conditions experienced during the first quarter of 2014. The major equipment has been delivered to the project site.

Capital expenditures related to the Power Generation Project totaled $13.6 million during the first quarter of 2014 compared to $22.6 million during the fourth quarter of 2013 and $1.3 million during the first quarter of 2013.

Corporate costs and other items

(millions of dollars, unaudited)	**Q1 2014**	**Q4 2013**	**Q1 2013**
Corporate costs	1.5	1.0	1.6
Borrowing costs and accretion	1.5	1.4	1.1
Foreign exchange gain	(0.2)	(0.2)	(0.4)
	2.8	2.2	2.3

Corporate costs and borrowing costs and accretion were relatively consistent in each of the comparative quarters. Borrowing costs and accretion are comprised of interest expense and amortization of costs related to debt issuance and accretion of convertible notes and senior secured notes. The foreign exchange gains represent the net translation and transaction gain arising from conversion of U.S. denominated working capital balances.

The Company utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and interest rate variability. Realized and unrealized gains or losses from the revaluation of lumber derivative instruments to fair values at period end are recognized as other income or expense each period and allocated to lumber segment operating results. The Company recorded gains from lumber derivative instruments of $0.3 million in the first quarter of 2014 compared to $0.1 million in the previous quarter and $0.1 million in the first quarter of 2013. The construction loan provided under the Company's project finance facility (discussed further below) consists of a floating rate tranche and a fixed rate tranche. Concurrent with the completion of the project finance facility in November 2013, CP Partnership entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the construction loan and the subsequent term loan to fixed interest rates. The realized and unrealized gains or losses on the interest rate swap instruments are capitalized during the construction period and will be recorded as interest expense once the Power Generation Project commences commercial operations. The loss under the interest rate swap instruments in the first quarter of 2014 and the previous quarter was de minimus.

Income tax

The Company had unused non-capital tax loss carry forwards totalling approximately $30.7 million as at December 31, 2013. Although the Company expects to realize the full benefit 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 any future taxable income.

LIQUIDITY AND CAPITAL RESOURCES

The following table is a summary of selected financial information as at the end of each of the comparative quarters:

(millions of dollars, unaudited)	Q1 2014	Q4 2013	Q1 2013
Cash	5.9	17.4	14.0
Cash - restricted	2.0	1.2	2.3
Operating working capital	55.9	25.1	22.0
Operating loan	(16.3)	-	-
Senior secured notes payable	-	-	(17.0)
Convertible notes	(9.0)	(8.8)	-
Current portion of long-term debt	(2.1)	(2.1)	(1.9)
Net current assets	36.4	32.8	19.4
Long-term assets related to power project	82.2	68.6	40.8
Long-term assets - lumber segment and corporate	81.2	79.5	70.8
Net assets	199.8	180.9	131.0
Non-interest bearing long-term liabilities	13.7	12.9	10.6
Long-term debt - power project construction loan	38.8	22.8	-
Long-term debt - other	28.7	28.9	11.6
Shareholders' equity	118.6	116.3	108.9
	199.8	180.9	131.1
Ratio of current assets to current liabilities	1.6	1.7	1.4
Net debt to capitalization, non-recourse borrowings excluded	29%	15%	11%
Net debt to capitalization, non-recourse borrowings included	42%	27%	11%

The Company's current principal sources of funds are cash flow from operations, cash on hand and borrowing availability under its revolving credit facilities and project finance facility related to the Power Generation Project. The revolving credit facilities are provided by Canadian chartered banks and are used primarily to support working capital requirements in the lumber segment. The revolving credit facilities total $32.5 million and consist of a $25.0 million asset backed credit facility and a $7.5 million demand loan which was assumed in connection with the Lignum acquisition. At March 31, 2014, borrowings under the revolving credit facilities totaled $16.3 million. The project finance facility is provided to CP Partnership and includes up to $82.0 million as a development and construction loan, an $18.95 million letter of credit facility and a

$1.75 million revolving operating facility. The project finance facility is primarily secured by a first priority security interest on the Power Generation Project assets and recourse to affiliates is largely limited to a $5 million contingent equity letter of credit issued by the Company which can only be drawn if the general contingency provided within the project budget is exhausted. At March 31, 2014, borrowings under the construction loan totalled $38.8 million.

The Company's working capital levels fluctuate throughout the year and are affected by a variety of factors, including changes in sales volume and price, shipment patterns, operating rates, 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. Factors such as disruption of transportation services by third party providers and increases in export shipments can impact the level of finished goods inventory. The Company's investment in raw materials and lumber inventories was at higher than usual levels during the first quarter of 2014 due to the seasonal log build and the disruption in transportation services. The Company believes working capital requirements had peaked towards the end of the first quarter of 2014 and expects a return to more normalized inventory levels over the next several months.

The Company's long-term debt consists primarily of senior secured promissory notes in the aggregate principal amount of $30 million. The promissory notes mature in September 2017, bear interest at a rate of 8% per annum, and can be partially or fully repaid by the Company at any time without penalty.

The improvement of the ratio of current assets to liabilities during the first quarter of 2014 and the previous quarter, to 1.6:1 and 1.7:1 respectively, from 1.4:1 in the first quarter of 2013, reflects the positive impact of cash flow generated from operations and the completion, during 2013, of various financing initiatives with longer maturity dates. The reclassification from long-term debt to current debt of the convertible notes which mature in December 2014 detracted from the ratio. Excluding the effects of the borrowings under the construction loan, the Company ended the first quarter of 2014 with a net debt to capitalization ratio of 29% compared to 15% at December 31, 2013. The Company expects this ratio to revert to a more conservative level over the next several months concurrent with the normalization of higher than usual working capital levels.

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, but no assurance may be given that such additional capital resources will be available on satisfactory terms, or at all.

The Company monitors expected liquidity levels by regularly preparing rolling cash flow forecasts to ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. The Company believes working capital requirements peaked towards the end of the first quarter of 2014 and expects the project finance facility will provide the remainder of the funding required to complete the Power Generation Project. Based on its current forecasts, the Company expects sufficient liquidity will be available to meet its obligations in 2014.

Selected Cash Flow Items

(millions of dollars, unaudited)	Q1 2014	Q4 2013	Q1 2013
Operating Activities			
Cash provided before working capital changes	7.5	4.7	10.7
Cash used in non cash working capital	(18.8)	(5.5)	(7.4)
Cash provided from (used) in operating activities	(11.3)	(0.8)	3.3
Investing Activities			
Additions to:			
Property, plant, equipment - power project	(15.7)	(20.6)	(1.3)
Property, plant, equipment - lumber and corporate	(3.0)	(7.2)	(3.5)
Acquistion of subsidiary	(4.8)	-	-
Cash used in investing activities	(23.5)	(27.8)	(4.8)
Financing Activities			
Proceeds from issuance of secured notes	-	-	5.0
Proceeds from construction loan - power project	16.1	22.8	-
Proceeds from (repayment of) operating loan	9.5	(7.0)	-
Repayment of long-term debt	(0.4)	(0.4)	(0.4)
Finance expense paid	(1.2)	(0.8)	(0.8)
Proceeds from incentive funding	-	3.3	-
Cash provided from financing activity	24.0	17.9	3.8
Change in cash	(10.8)	(10.7)	2.3

Cash used in non-cash working capital items

(millions of dollars)	Q1 2014	Q4 2013	Q1 2013
Trade and other receivables	3.9	(0.1)	(3.5)
Inventories	(20.4)	(2.8)	(10.3)
Accounts payable, accrued liabilities and other payables	(3.1)	(0.4)	6.0
Other	0.8	(2.2)	0.4
Cash used in non cash working capital	(18.8)	(5.5)	(7.4)

Operating activities consumed cash of $11.3 million in the first quarter of 2014 and $0.8 million in the previous quarter compared to cash generation of $3.3 million during the first quarter of 2013. The fluctuation between quarters was due primarily to the net change in non-cash working capital levels and, to a lesser extent, the variation in lumber segment profitability. The incremental investment in inventories had the largest impact on non-cash working capital changes in each of the comparative quarters. During the first quarter of 2014, inventories increased by over $20 million with the seasonal log build accounting for approximately one-third of the increase and higher finished goods inventories accounting for the balance. The higher than usual finished goods inventories were due primarily to the railcar shortages in Western Canada throughout much of the quarter and the truckers' strike at the main Vancouver, British Columbia port during March.

Investing activities during the first quarter of 2014 totalled $23.5 million on a cash basis and were comprised of $15.7 million of expenditures on the construction of the Power Generation

Project, $3.0 million on lumber segment capital expenditures and $4.8 million on the acquisition of Lignum. The Company invested $20.6 million in the Power Generation Project in the previous quarter and $7.2 million on capital improvements in the lumber segment. Lumber segment capital expenditures during the first quarter of 2014 and the fourth quarter of 2013 were weighted towards the replacement and upgrade of aging equipment and safety related and asset protection projects, with the balance focused on targeted higher return projects including improvements to recovery of residuals. During the first quarter of 2013, investments in capital items included $1.0 million on the completion of a minor capital upgrade project at Fort St. James and $1.3 million on the Power Generation Project.

Cash provided from financing activities during the first quarter of 2014 totalled $24.0 million and included proceeds from the construction loan of $16.1 million and net proceeds from revolving credit facilities of $9.5 million. During the previous quarter, material financing activities included proceeds from the construction loan of $22.8 million, proceeds of $3.3 million incentive funds and repayment of $7.0 million on the revolving credit facility, resulting in net cash provided from financing activities of $17.9 million. During the first quarter of 2013, CP Partnership completed a senior secured financing agreement pursuant to which promissory notes were issued for gross proceeds of $5.0 million. The notes were fully repaid in September 2013.

Overall cash balances decreased by $10.8 million during the first quarter of 2014 and $10.7 million during the previous quarter and increased by $2.3 million during the first quarter of 2013. The Company had unrestricted cash of $5.9 million at March 31, 2014 compared to $17.4 million at December 31, 2013.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, unaudited)	2014 Q1	2013 Q4	Q3	Q2	Q1	2012 Q4	Q3	Q2
Sales	67.2	63.7	65.3	64.5	66.1	60.0	54.4	55.8
Operating income (loss)	2.8	2.2	0.7	3.3	6.6	(2.4)	(2.8)	(1.6)
Net income (loss)	1.6	1.1	(0.1)	2.4	6.2	(3.6)	(3.7)	(2.4)
Net income (loss) per share - basic	0.08	0.05	(0.01)	0.12	0.30	(0.18)	(0.19)	(0.13)
Net income (loss) per share - diluted (1)	0.08	0.05	(0.01)	0.12	0.29	(0.18)	(0.19)	(0.13)
EBITDA	6.1	4.9	2.8	4.8	9.2	(0.3)	(0.5)	0.6
Shares outstanding - weighted average (millions)	20.8	20.8	20.8	20.8	20.7	19.6	19.4	19.4
Statistics								
Lumber shipments - Conifex product (MMfbm)	95.9	118.6	129.3	119.2	119.8	110.2	107.5	111.7
Lumber production (MMfbm)	128.3	116.3	123.0	135.8	124.2	108.4	102.8	102.1
Average exchange rate - US$/Cdn$ (2)	0.906	0.953	0.963	0.977	0.991	1.009	1.005	0.990
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$ 367	$ 370	$ 328	$ 334	$ 390	$ 335	$ 301	$ 296
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(4)	$ 405	$ 388	$ 341	$ 342	$ 393	$ 332	$ 299	$ 299
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	1.6	1.1	(0.1)	2.4	6.2	(3.6)	(3.7)	(2.4)
Add: Interest expense and accretion	1.5	1.5	0.7	0.7	1.1	1.2	0.8	0.8
Amortization	2.6	2.2	2.3	2.1	2.0	1.9	1.9	1.8
Non-cash items related to compensation	0.4	0.1	0.0	(0.4)	(0.1)	0.1	0.4	0.2
Loss on disposal of assets	-	-	-	-	-	-	0.1	0.2
EBITDA (5)	6.1	4.9	2.8	4.8	9.2	(0.3)	(0.5)	0.6

(1) If the conversion of convertible notes and/or the inclusion of outstanding warrants is anti-dilutive, it is excluded from the calculation of diluted net income or loss per share.
(2) Source: Bank of Canada website www.bankofcanada.ca
(3) Source: Random Lengths Publications Inc.
(4) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate
(5) May not total exactly due to rounding.

The financial data summarized in the preceding table for each of the eight most recently completed quarters has been prepared in accordance with International Financial Reporting Standards.

The Company's financial results are impacted by a variety of market related factors, including fluctuation in lumber prices, fluctuation in prices of certain commodities related to by-product revenue and manufacturing inputs, 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. The Company primarily relies on third parties for transportation of its products, as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact operations or cost structure. Other more company specific factors that influence quarterly trends include operating rates and transactions of a non-recurring nature. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months, primarily December to March, to ensure adequate supply of fibre to its mills during the spring months when logging operations are largely curtailed due to unstable road conditions. The Company completed the acquisition of Lignum, a lumber marketing and distribution business, in February 2014.

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 that should otherwise be available to reduce future taxable income.

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SUBSEQUENT EVENTS

Receipt of conditional approval for TSX graduation

On May 5, 2014, the Company announced that it had received conditional approval from the Toronto Stock Exchange ("TSX") for the listing of its common shares on the TSX, subject to the completion of customary requirements of the TSX, including receipt of all required documentation. Upon receipt of final approval, the common shares of Conifex will commence trading on the TSX and be delisted from the TSX Venture Exchange. Upon listing on the TSX, it is expected that Conifex's common shares will continue to trade under the symbol "CFF".

OUTLOOK AND STRATEGY

The Company is executing a strategy to grow and add value to its business. Management has been executing against this plan since the Company's management restructuring late in 2012. The momentum established in 2013 in terms of increasing production volumes and expanding profit margins is expected to continue through the balance of 2014.

Through the balance of the year, the Company expects to complete its Power Generation Project on budget, and to commence deliveries of electricity late in the third quarter of 2014. The Company also expects to establish a long-term plan for its idled Mackenzie mill following the release of information regarding future sawlog harvest levels in the Mackenzie Timber Supply Area by the Ministry of Forests, Lands and Natural Resources Operations.

Management expects the lumber shipment challenges incurred in the first quarter of 2014 to be resolved during the second and third quarters of 2014, thereby permitting inventory and working capital levels to return to more normal levels.

OUTSTANDING SECURITIES

As at May 9, 2014, the Company had 20,880,641 issued and outstanding common shares, 100,000 options granted, 921,318 long-term incentive plan awards, 2,210,200 warrants, and stepped rate subordinated convertible promissory notes in the aggregate principal amount of $9,732,000, which notes are convertible into a maximum of 1,216,500 common shares of the Company, excluding any common shares issuable in payment of accrued interest thereon.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company's 2013 annual information form dated March 27, 2014, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

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