CONIFEX

CONIFEX TIMBER INC.
FIRST QUARTER 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 4, 2015

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc.(the "Company") for the quarter ended March 31, 2015 relative to the quarters ended December 31, 2014 and March 31, 2014, 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, 2015 and 2014, as well as the 2014 annual MD&A and the December 31, 2014 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. 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 and equipment upgrades; and the anticipated benefits, cost, timing and completion dates for projects, including the Power Generation Project and the recording of any revenues therefrom.

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 disruptions affecting the operation of the power generation plant and that the Company will be able to achieve timely delivery of power therefrom; that softwood lumber will experience sustained demand in the marketplace; that the export tax rate on U.S. lumber shipments will be less than the maximum rate; 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; that the equipment at our mills and power plant will operate at expected levels; and that CP Partnership will commence selling electricity to BC Hydro under the EPA in May 2015.

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 18, 2015 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.

CHANGES IN EXECUTIVE MANAGEMENT TEAM

Effective January 5, 2015, Pat Bell resigned from his position as the Company's Executive Vice President to focus more exclusively on family business interests. Mr. Bell provided advisory services to the Company for two months following his resignation and will continue to serve as a director of Conifex.

Effective January 19, 2015, the Board of Directors promoted Tony Madia to Senior Vice-President, Operations and Douglas Rooke to Vice-President, Energy and Capital Projects. In his previous role as Vice-President, Corporate Development, Mr. Madia's responsibilities included leading the development of the Power Generation Project (as defined herein). Mr. Rooke was previously the Energy Manager and involved in all aspects of the Power Generation Project. His new responsibilities will include continued oversight of the commissioning and operations of the Power Generation Project.

Effective February 15, 2015, the Board of Directors appointed Sandy Ferguson as Vice-President, Corporate Development. Ms. Ferguson worked with Conifex in a consulting capacity over the past year and has experience in a variety of senior business development and marketing roles in Canada and the U.K.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

Selected Financial Information

(millions of dollars, except share and per share amounts, unaudited)	Q1 2015	Q4 2014	Q1 2014
Sales	85.3	95.2	67.2
Operating Income by Segment			
Lumber	2.0	1.8	4.4
Bioenergy	-	-	-
Corporate and other	(0.9)	(1.2)	(1.6)
	1.1	0.6	2.8
EBITDA by Segment			
Lumber	4.7	4.5	7.0
Bioenergy	-	-	-
Corporate and other	1.0	(0.4)	(1.3)
	5.7	4.1	5.7
Net income	1.6	-	1.6
Net income per share - basic and diluted (1)	0.08	-	0.08
Shares outstanding - weighted average (millions)	21.0	20.9	20.8
Average exchange rate - US$/Cdn$ (2)	0.806	0.881	0.906
Reconciliation of EBITDA to Net Income			
Net income	1.6	-	1.6
Add: Finance costs	1.3	1.4	1.5
Amortization	2.8	2.7	2.6
EBITDA	5.7	4.1	5.7

(1) The calculation of diluted net income per share excludes the assumed conversion of convertible notes and/or the assumed exercise of outstanding warrants if the resulting effect on net income per share is anti-dilutive.
(2) Source: Bank of Canada website www.bankofcanada.ca.

For the quarters ended March 31, 2015 and March 31, 2014, the Company recorded net income of $1.6 million or $0.08 per diluted share for each such quarter on sales of $85.3 million and $67.2 million, respectively. For the quarter ended December 31, 2014, the Company recorded net income of $nil on sales of $95.2 million.

Lumber segment operating income was comparable to the previous quarter as declines in shipments of Conifex produced lumber and wholesale lumber were offset by the benefits of improvements in unit mill net realizations and unit cash conversion costs. Compared to the first quarter of 2014, a decline in lumber segment operating income of $2.4 million was primarily attributable to a considerable increase in unit log costs which more than offset the benefits of increased shipment volumes of wholesale and non-wholesale lumber, growth in revenue from residuals, and improvement in unit cash conversion costs.

Corporate costs and other items included foreign exchange translation gains of $1.9 million in the first quarter of 2015, $0.8 million in the previous quarter, and $0.2 million in the first quarter of 2014.

EBITDA was $5.7 million in the first quarter of 2015 and represented an improvement of $1.6 million over the fourth quarter of 2014. EBITDA in the first quarter of 2014 was also $5.7 million.

Lumber segment EBITDA of $4.7 million represented a modest improvement over the previous quarter and a decline of $2.3 million from the first quarter of 2014.

The Company had unrestricted cash balances of $10.1 million at March 31, 2015 and December 31, 2014, and $5.9 million at March 31, 2014. At March 31, 2015, the Company had operating working capital of $46.5 million invested in its lumber segment operations. Operating working capital levels were approximately 20% higher than typical average amounts for the Company due primarily to the seasonal log build. The Company believes working capital requirements peaked towards the end of the first quarter of 2015 and expects a return to normalized inventory levels over the next several months. Net debt increased by $12.1 million during the first quarter of 2015 due primarily to additional drawings of $6.9 million on the Company's asset backed revolving credit facility and demand revolving loan as a result of higher seasonal inventory levels and $5.7 million on the construction loan for the Power Generation Project. Excluding borrowings 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., the Company ended the first quarter of 2015 with a net debt to capitalization ratio of 28% compared to 25% at December 31, 2014.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, except share and per share amounts, unaudited)	**Q1 2015**	**Q4 2014**	**Q1 2014**
Sales -Lumber - Conifex product	53.8	61.9	44.9
- Lumber - wholesale	22.1	22.8	13.2
- By-products	6.4	6.8	5.7
- Logistics services	3.0	3.7	3.4
Total Sales	85.3	95.2	67.2
EBITDA	4.7	4.5	7.0
Amortization	2.7	2.7	2.6
Operating income	2.0	1.8	4.4
Statistics			
Lumber shipments - Conifex product (MMfbm)	112.8	134.0	95.9
Lumber shipments - Wholesale (MMfbm)	34.8	40.4	24.9
Lumber production (MMfbm)	119.4	116.9	128.3
Average exchange rate - US$/Cdn$ (1)	0.806	0.881	0.906
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 304	$ 340	$ 367
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$ 378	$ 386	$ 405
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$276-$336	$330-$352	$354-$376

(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

Overview

According to data published by the U.S. Census Bureau, U.S. privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 968,700 over the first quarter of 2015, which represented a decline of 10% from the fourth quarter of 2014 and an improvement of 5% over the first quarter of 2014. The lumber price for the bellwether WSPF 2x4 #2 & Btr ("**WSPF**") averaged US$304 during the first quarter of 2015[1]. The decline in the benchmark price of 11% from the previous quarter and 17% from the first quarter of 2014 was somewhat offset by the weaker Canadian currency, which declined by 9% and 11%, respectively[2]. The Canadian dollar denominated benchmark lumber price averaged $378 during the first quarter of 2015, a decrease of $8 per thousand board feet or 2% from the previous quarter and $27 per thousand board feet or 7% from the first quarter of 2014.

Industry analysts generally attributed the disappointing level of U.S. housing starts during the first quarter of 2015, which fell short of market forecasts, to cold weather which hampered new construction, particularly in the Northeast and the Midwest. The subdued demand in the U.S., reduced shipments to offshore markets, and production at normalized levels contributed to a supply imbalance and considerably weaker average WSPF prices.

Shipments of Conifex produced lumber totaled 113 million board feet, a decline of 16% from the previous quarter, but an improvement of 18% over the same quarter last year when weather related railcar shortages and a truckers' strike at the main container port in Vancouver, British Columbia significantly hampered shipments to domestic and offshore markets. Production volumes, which outpaced shipments by 6%, totalled 119 million board feet and reflected a modest increase over the previous quarter and a 7% decline from first quarter of 2014.

The export tax rate on shipments to the U.S. was zero percent during each of the comparative quarters but is expected to average 5% to 7% during the second quarter of 2015 as a result of lower average Random Lengths Framing Lumber Composite Prices.

The lumber segment recorded operating income of $2.0 million for the first quarter of 2015 compared to $1.8 million in the fourth quarter of 2014 and $4.4 million in the first quarter of 2014. Lumber segment EBITDA of $4.7 million improved marginally over the previous quarter and declined by $2.3 million from the first quarter of 2014.

Lumber segment operating income was comparable to the previous quarter as declines in shipments of Conifex produced lumber and wholesale lumber were offset by the benefits of improvements in unit mill net realizations and unit cash conversion costs. Compared to the first quarter of 2014, the decline of $2.4 million in operating income was primarily attributable to a 23% increase in unit log costs which more than offset the benefits of increased shipment volumes of wholesale and non-wholesale lumber, growth in revenue from residuals, and a 10% improvement in unit cash conversion costs.

Management expects that North American softwood lumber markets will remain challenging and benchmark prices will remain relatively weak until U.S. housing construction activity gains sufficient momentum to sustain higher demand levels for softwood lumber. We expect overall shipment levels to the Canadian and Japanese markets to remain relatively constant, while shipments to the U.S. and Chinese markets will fluctuate depending on market and pricing dynamics. We expect to continue to ship volume largely consistent with prior quarters to the Chinese market but recognize the factors influencing competition in that market are more global in nature, which results in enhanced uncertainty around pricing and volumes. In Japan, we expect the J Grade market to be somewhat eroded by government programs which encourage

[1] WSPF prices as quoted in Random Lengths Publications Inc.

[2] Currency rates as quoted on the Bank of Canada website www.bankofcanada.ca

the use of domestic wood supply and by generally weaker demand. As orders are generally priced quarterly, we expect sequentially lower prices for the second quarter of 2015 but expect to maintain strong relationships and consistent order files. We anticipate reliability of logistics networks will remain challenging from time to time, particularly related to vulnerability from third party labour disputes and seasonal rail car availability. We expect productivity improvements, the realization of benefits from recently installed dust containment systems, lower energy costs and heightened focus on cost management will continue to result in lower unit cash conversion costs, although the savings may be somewhat offset by further log cost inflation.

Sales

Lumber shipments of Conifex produced lumber totalled 113 million board feet during the first quarter of 2015 and represented a decline of 16% from the previous quarter and an increase of 18% over the first quarter of 2014. Total shipments, including wholesale lumber shipments, declined by 15% from the previous quarter and increased by 22% over the first quarter of 2014. The fluctuation in wholesale lumber shipments is generally attributable to the addition of Lignum Forest Products LLP ("Lignum") shipments from February 2014 and the variability which typically characterizes the wholesale lumber trading sector.

Compared to the previous quarter, gross revenues from shipments of Conifex produced lumber declined by 13% as the impact of a 16% decline in shipments was somewhat offset by a 3% increase in unit gross sales realization. Unit mill net realizations improved by 3% despite a 2% decline in Canadian dollar benchmark prices due primarily to the shipment of a higher value product mix and higher value order file. Compared to the first quarter of 2014, a 20% increase in gross lumber revenues from Conifex produced lumber was largely attributable to higher shipment volume.

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 2015**	**Q4 2014**	**Q1 2014**
By Revenue (net of freight)			
Canada	17%	13%	13%
USA	55%	51%	53%
China	17%	24%	23%
Japan	9%	10%	10%
Other export	2%	2%	1%
	100%	100%	100%
By Shipment Volume			
Canada	16%	12%	14%
USA	54%	48%	51%
China	21%	30%	27%
Japan	7%	7%	7%
Other export	2%	3%	1%
	100%	100%	100%

Production and Operations

Lumber production totalled 119 million board feet in the first quarter of 2015 and represented an annualized operating rate of 91% (excluding lumber capacity attributed to the idled Mackenzie Site I sawmill) compared to 89% in the previous quarter and 98% in the first quarter of 2014. The annual lumber capacity of the Company's two operating sawmills on a two-shift basis is approximately 525 million board feet. The adverse impact of approximately 7% lower production volumes compared to the same quarter last year was partially offset by the benefits of a higher value grade outturn and improved mill net realizations due to adjustments to trimming protocols. During the past six months, the Company completed installation and implementation of extensive dust containment systems at the Fort St. James and Mackenzie Site II sawmills without disruptions to operations.

Costs of goods sold include costs related to the raw materials and manufacturing of Conifex produced lumber, purchases of wholesale lumber (which may include a freight component) and freight procurement costs related to the provision of third party logistics services. Overall cost of goods sold decreased by 11% compared to the previous quarter due primarily to lower shipment volumes and manufacturing costs. An increase of 32% in cost of goods sold over the first quarter of 2014 was primarily attributable to higher shipment volumes and unit log costs partially offset by lower unit manufacturing costs.

Unit log costs were relatively flat during the first quarter of 2015 and the previous quarter and increased by approximately 23% over the first quarter of 2014. The increase was primarily attributable to costs associated with increased stumpage rates, logging and hauling rates, and purchased log costs. Lower energy and contractor services costs and a heightened focus on cost controls contributed to a 10% improvement in unit cash conversion costs over the previous quarter and the fourth quarter of 2014.

Per unit freight and distribution costs on shipments of Conifex produced lumber increased by 4% over the previous quarter and 11% over the first quarter of 2014. The increase was primarily attributable to the weaker Canadian currency as freight costs outside of Canada are typically denominated in U.S. dollars, somewhat offset by the benefit of reduced fuel surcharges.

Bioenergy Segment

The Company's wholly-owned subsidiary, Conifex Power Limited Partnership ("CP Partnership"), has recently completed development of a 36 MW biomass power plant adjacent to the Mackenzie Site I sawmill complex (the "Power Generation Project"). Key project components included upgrading the existing power island infrastructure and installing a new 36 MW turbine. The completed power generation plant is contracted to supply electricity to the Mackenzie operations under a Load Displacement Agreement and sell electricity under an Electricity Purchase Agreement (the "EPA") with BC Hydro. Both agreements have 20-year terms.

The Power Generation Project team substantially completed the reassembly, testing and commissioning of the power plant, largely in accordance with the remediation budget and schedule, by the end of the first quarter of 2015. As discussed under Subsequent Events below, a significant project milestone was reached in April 2015 with the completion of a continuous 72 hour run test which was a critical requirement to achieve the commercial operation date ("COD") under the EPA. CP Partnership expects to commence selling electricity under the EPA to BC Hydro in May 2015.

The Company previously estimated that the Power Generation Project construction budget would total approximately $100 million, including provision for testing and commissioning costs and a general contingency. The Company currently expects the net financial impact attributable to the delay of commercial operations (from October 2014) to be up to $3.5 million, comprising the deductible for insurance for physical equipment damage and the customary waiting period for the receipt of insurance proceeds under the delay in start-up ("DSU") coverage. CP Partnership expects to be fully reimbursed for foregone income for the period covered under the DSU policy, being the period between the expiry of the waiting period and the commencement of the 72 hour run test.

Capital expenditures related to the Power Generation Project totaled $7.0 million during the first quarter of 2015 and were partially offset by an advance against insurance proceeds of $1.5 million. Capital expenditures included repair and reassembly costs, as well as carrying costs such as interest, insurance premiums and property tax.

Corporate costs and other items

(millions of dollars, unaudited)	**Q1 2015**	**Q4 2014**	**Q1 2014**
Corporate costs	0.9	1.3	1.5
Finance costs	1.3	1.4	1.5
Other (income) expense	0.1	(0.1)	(0.1)
Foreign exchange gain	(1.9)	(0.8)	(0.2)
	0.4	1.8	2.7

Corporate costs and finance costs were generally consistent in each of the comparative quarters.

The Company utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and to manage its 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 construction loan provided under the project financing facility secured to develop the Power Generation Project consists of a floating rate tranche and a fixed rate tranche (the "Project Financing"). CP Partnership has 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. A loss of $0.3 million on the interest rate swap instruments was recorded as capital costs during the first quarter of 2015.

The foreign exchange translation gain recorded for each period results from the revaluation of U.S. dollar-denominated working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the rate of exchange prevailing at the reporting date. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period.

Income tax

At December 31, 2014, the Company had unused non-capital tax losses carried forward totalling approximately $30.4 million. Although the Company expects to realize the full benefit of the loss carry forwards and unrecognized 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 taxable income.

SUMMARY OF FINANCIAL POSITION

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 2015	Q4 2014	Q1 2014
Cash	10.1	10.1	5.9
Cash - restricted	2.0	1.8	2.0
Operating working capital	46.5	36.5	55.9
Operating loans	(18.6)	(11.8)	(16.3)
Convertible notes	-	-	(9.0)
Current portion of long-term debt	(7.0)	(6.7)	(2.1)
Net current assets	33.0	29.9	36.4
Long-term assets related to power project	132.1	126.5	82.2
Long-term assets - lumber segment and corporate	85.1	85.5	81.2
Net assets	250.2	241.9	199.8
Non-interest bearing long-term liabilities	13.7	12.3	13.7
Long-term debt - power project construction loan	73.0	68.0	38.8
Long-term debt - other	39.4	39.3	28.7
Shareholders' equity	124.1	122.3	118.6
	250.2	241.9	199.8
Ratio of current assets to current liabilities	1.5	1.5	1.6
Net debt to capitalization, non-recourse borrowings excluded	28%	25%	29%
Net debt to capitalization, non-recourse borrowings included	50%	48%	42%

The Company manages capital with the objective of maintaining a strong balance sheet that helps ensure adequate capital resources to support operations, sustain future development and facilitate access to capital markets at competitive rates. The Company uses the net debt to total capitalization ratio to measure the Company's relative debt position and as an indicator of the relative strength and flexibility of its balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion and bank advances and the present value of convertible notes, less cash. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. Net debt increased by $12.1 million during the first quarter of 2015 due primarily to additional drawings of $6.9 million on the Company's asset backed revolving credit facility and demand revolving loan as a result of higher seasonal inventory levels and $5.7 million on the construction loan.

The Project Financing is primarily secured by a first 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 and bridge financing of $8 million to be repaid by CP

Partnership upon settlement of its insurance claim and receipt of proceeds therefrom. Excluding the effects of the borrowings under the Project Financing, the Company ended the first quarter of 2015 with a net debt to capitalization ratio of 28% compared to 25% at December 31, 2014.

CHANGES IN FINANCIAL POSITION

Selected Cash Flow Items

(millions of dollars, unaudited)	Q1 2015	Q4 2014	Q1 2014
Operating Activities			
Cash provided before working capital changes	7.3	4.8	7.5
Cash provided from (used in) non-cash working capital	(9.8)	1.1	(18.8)
Cash provided from (used in) operating activities	(2.5)	5.9	(11.3)
Investing Activities			
Additions to:			
Property, plant, equipment - power project	(5.5)	(10.1)	(15.7)
Property, plant, equipment - lumber and corporate	(2.6)	(7.0)	(3.0)
Acquistion of subsidiary	-	-	(4.8)
Cash used in investing activities	(8.1)	(17.1)	(23.5)
Financing Activities			
Proceeds from issuance of unsecured convertible notes	-	12.0	-
Proceeds from construction loan - power project	5.8	-	16.1
Proceeds from operating loans	6.9	7.0	9.5
Repayment of unsecured convertible notes	-	(9.7)	-
Repayment of long-term debt	(0.5)	(0.7)	(0.4)
Financing costs paid	(1.4)	(0.5)	(1.2)
Cash provided from financing activities	10.8	8.1	24.0
Change in cash	0.2	(3.1)	(10.8)

Cash used in non-cash working capital items

(millions of dollars, unaudited)	Q1 2015	Q4 2014	Q1 2014
Trade and other receivables	1.6	(5.2)	3.9
Inventories	(13.4)	6.5	(20.4)
Accounts payable, accrued liabilities and other payables	(0.6)	1.8	(3.1)
Other	2.6	(2.0)	0.8
Cash provided from (used in) non cash working capital	(9.8)	1.1	(18.8)

Operating activities consumed cash of $2.5 million in the first quarter of 2015 and $11.3 million in the first quarter of 2014 and generated cash of $5.9 million during the fourth quarter of 2014. The fluctuation between quarters was due primarily to the net change in non-cash working capital levels which was significantly impacted by the incremental investment in inventories in the first quarters of 2015 and 2014. Log inventories due to the seasonal build increased by a similar magnitude during the first quarters of 2015 and 2014 while finished goods inventories were atypically higher during the first quarter of 2014, primarily due to weather related railcar shortages in Western Canada throughout much of the quarter and a truckers' strike at the main port in Vancouver, British Columbia in March 2014.

Investing activities during the first quarter of 2015 totalled $8.1 million and were comprised of $2.6 million of lumber segment capital expenditures and $5.5 million of expenditures related to the Power Generation Project. During the previous quarter, the Company invested $7.0 million on lumber segment capital projects and $10.1 million on expenditures related to the Power Generation Project. Lumber segment capital expenditures during the past six months were concentrated on the installation of extensive dust mitigation equipment at the Fort St. James and Mackenzie Site II sawmills. Investing activities during the first quarter of 2014 totalled $23.5 million 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.

Financing activities during the first quarter of 2015 provided net cash of $10.8 million and included drawings of $5.8 million from the construction loan and $6.9 million from revolving operating loans and repayment of long-term debt and payment of financing costs totalling $1.9 million. In the previous quarter, financing activities provided net cash of $8.1 million and included proceeds of $12 million from the issuance of unsecured two-year convertible notes, drawings of $7.0 million on operating loans, repayment of previously issued stepped rate convertible notes of $9.7 million, and repayment of long-term debt and payment of interest totalling $1.2 million. . As previously disclosed, a portion of the proceeds from the issuance of the two-year convertible notes was used to repay the previously issued stepped rate convertible notes in the amount of $9.7 million. Cash provided from financing activities during the first quarter of 2014 totalled $24.0 million and included draws totalling $16.1 million from the construction loan and $9.5 million from operating loans

LIQUIDITY AND CAPITAL RESOURCES

The Company's current principal sources of funds are cash on hand, cash flow from operations, and borrowing availability under its revolving operating loans and the Project Financing.

The Company had unrestricted cash balances of $10.1 million at March 31, 2015 and December 31, 2014, and $5.9 million at March 31, 2014. At March 31, 2015, the Company had operating working capital of $46.5 million invested in its lumber segment operations. Operating working capital levels were approximately 20% higher than typical average amounts carried by the Company due primarily to the seasonal log build. The Company believes working capital requirements peaked towards the end of the first quarter of 2015 and expects a return to normalized inventory levels over the next several months. The Company had approximately $10 million availability under its revolving credit facilities and $3.8 million undrawn on its construction loan at March 31, 2015.

The Company monitors expected liquidity levels and compliance with debt covenants 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. Scheduled long-term debt payments, including interest, are estimated to total $10.5 million in 2015. The Company expects proceeds from the availability on the construction loan and the insurance settlement will be sufficient to fund the balance of any capital expenditures related to the Power Generation Project. The Company was in compliance with its debt covenants for the quarter ended March 31, 2015. Based on its current forecasts, the Company expects sufficient liquidity will be available to meet its obligations in 2015.

As part of its overall strategy, the Company may acquire businesses or additional assets or materially expand its facilities 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, unaudited)	2015 Q1	2014 Q4	Q3	Q2	Q1	2013 Q4	Q3	Q2
Sales	85.3	95.2	90.9	99.6	67.2	63.7	65.3	64.5
Operating income	1.1	0.6	1.5	4.4	2.8	2.2	0.7	3.3
Net income (loss)	1.6	-	1.1	2.0	1.6	1.1	(0.1)	2.4
Net income (loss) per share - basic and diluted (1)	0.08	-	0.05	0.10	0.08	0.05	(0.01)	0.12
EBITDA (2)	5.7	4.1	5.3	6.2	5.7	4.7	2.8	5.2
Shares outstanding - weighted average (millions)	21.0	20.9	20.9	20.9	20.8	20.8	20.8	20.8
Statistics								
Lumber shipments - Conifex produced (MMfbm)	112.8	134.0	130.4	146.4	95.9	118.6	129.3	119.2
Lumber production (MMfbm)	119.4	116.9	125.6	134.9	128.3	116.3	123.0	135.8
Average exchange rate - US$/Cdn$ (3)	0.806	0.881	0.918	0.917	0.906	0.953	0.963	0.977
Average WSPF 2x4 #2&Btr lumber price (US$) (4)	$ 304	$ 340	$ 356	$ 335	$ 367	$ 370	$ 328	$ 334
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(5)	$ 378	$ 386	$ 388	$ 365	$ 405	$ 388	$ 341	$ 342
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	1.6	-	1.1	2.0	1.6	1.1	(0.1)	2.4
Add: Finance costs	1.3	1.4	1.4	1.5	1.5	1.4	0.7	0.7
Amortization	2.8	2.7	2.8	2.7	2.6	2.2	2.2	2.1
EBITDA	5.7	4.1	5.3	6.2	5.7	4.7	2.8	5.2

(1) The calculation of diluted net income per share excludes the assumed conversion of convertible notes and/or the assumed exercise of outstanding warrants if the resulting effect on net income per share is anti-dilutive.
(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization. EBITDA for quarterly periods presented has been restated to: (i) exclude deductions for non-cash charges related to employee compensation for 2013; and (ii) include accretion expense as a component of financing costs.
(3) Source: Bank of Canada website www.bankofcanada.ca.
(4) Source: Random Lengths Publications Inc.
(5) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate.

The Company’s financial results are impacted by a variety of market related factors, including fluctuation in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, and changes in the export tax rate, stumpage rates, and foreign exchange rates. Other more company specific factors that influence quarterly financial trends include operating rates, shipment volumes, raw material and manufacturing costs, and transactions of a non-recurring nature. The Company relies primarily 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, 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. 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. Operating rates are typically lower, and unit manufacturing costs higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays. The considerable increase in revenues in the second quarter of 2014 and subsequent quarters was largely attributable to the acquisition of Lignum, a lumber marketing and distribution business, in February 2014.

OUTLOOK AND STRATEGY

In the near-term, management intends to remain focused on operating the power generation facility to meet the contracted volumes under the EPA, as well as a number of initiatives to enhance lumber segment operations and cash flow, including continued heightened cost management and productivity improvements from affordable, high-return capital projects.

The Company believes that the recent realignment of management resources, enhanced certainty of longer-term fibre availability in the Mackenzie Timber Supply Area, and commencement of commercial operations of the power generation plant in May 2015 to augment lumber segment cash flows, leave the Company well-positioned to undertake a capital expenditure program designed to further improve lumber segment performance.

SUBSEQUENT EVENTS

Completion of Continuous 72 Hour Run Test at Mackenzie Power Generation Project

On April 24, 2015, the Company announced that CP Partnership achieved a significant milestone related to its Power Generation Project by completing a continuous 72 hour run test at its 36 MW biomass power plant at Mackenzie, B.C. The successful completion of the run test, which has been confirmed by BC Hydro, was a critical requirement to achieve the COD in accordance with the EPA. CP Partnership expects to commence selling electricity under the EPA to BC Hydro in May 2015.

OUTSTANDING SECURITIES

As at May 4, 2015, the Company had 20,972,537 issued and outstanding common shares, 100,000 options granted, 1,093,521 long-term incentive plan awards, 1,220,417 warrants, and subordinated convertible promissory notes in the aggregate principal amount of $12 million, which notes are convertible into a maximum of 1,929,260 common shares of the Company.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 2015. Conifex's critical accounting estimates are described in its MD&A for the year ended December 31, 2014, filed under the Company's profile on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company's 2014 annual information form dated March 18, 2015, and other filings with the Canadian Securities Administrators available on SEDAR at www.sedar.com.

Softwood Lumber Agreement

Canadian softwood lumber exports to the U.S. are currently subject to export taxes under the Softwood Lumber Agreement ("SLA") which became effective in October 2006. In January 2012, the Canadian and U.S. governments agreed to a two-year extension of the SLA, extending the expiry to October 2015. Discussions on the upcoming SLA expiry have begun between Canadian and the U.S. governments. The outcome of those discussions is uncertain and could result in significant impacts to our U.S. lumber exports.

The current SLA provides that should an agreement not be reached before the October 2015 expiry, no trade actions may be imposed for the importation of softwood lumber from Canada to the U.S. for a period of twelve months following the current SLA expiry date.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2015, there were no changes in the Company's internal controls over financing reporting that materially affected, or would be reasonably likely to materially affect, such controls.

ADDITIONAL INFORMATION

Additional information about the Company, including its Annual Information Form for the year ended December 31, 2014, is available on SEDAR at www.sedar.com.