Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2011
(Unaudited)

Conifex Timber Inc.

March 31, 2011

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NOTICE TO SHAREHOLDERS

Under Part 4 of National Instrument 51-102 – *Continuous Disclosure Obligations*, if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Conifex Timber Inc. (the "**Company**") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Conifex Timber Inc.

Condensed consolidated statement of net loss and comprehensive loss
period ended March 31, 2011 (unaudited)

(thousands of Canadian dollars except earnings per share)	Three months ended **March 31, 2011**	March 27, 2010
	$	$
Revenue	**21,177**	12,076
Costs and expenses		
Cost of goods sold	**18,055**	8,883
Freight and distribution costs	**3,575**	2,435
Export taxes	**675**	468
Selling, general and adminstrative	**2,664**	1,340
	24,969	13,126
Operating (Loss)	**(3,792)**	(1,050)
Interest (expense)	**(21)**	-
Other income (expense)	**698**	(515)
Foreign exchange (loss)	**(215)**	(81)
Accretion of convertible debenture	**(257)**	-
	205	(596)
Loss before tax	**(3,587)**	(1,646)
Income taxes	-	-
Net loss and comprehensive loss for the period	**(3,587)**	(1,646)
Net loss per share, basic and diluted	**(0.24)**	(0.39)

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Conifex Timber Inc.

Condensed consolidated balance sheet
as at March 31, 2011 (unaudited)

(thousands of Canadian dollars)	Notes	**March 31, 2011**	December 31, 2010
		$	$
Assets			
Current assets			
Cash		**9,487**	26,629
Inventories	6	**27,674**	15,142
Trade and other receivables		**9,964**	6,011
Prepaid expenses and deposits		**1,972**	2,455
Assets held for sale	7	**1,312**	1,630
Current assets		**50,409**	51,867
Intangible assets		**8,594**	8,607
Property, plant and equipment	8	**71,381**	65,692
Deposits		**336**	338
Total assets		**130,720**	126,504
Liabilities			
Current liabilities			
Trade payables, accrued liabilities and other payables		**12,607**	6,512
Current portion of reforestation obligations		**1,589**	1,589
Employee liabilities		**2,624**	1,822
Current portion of long term debt		**1,647**	1,227
Current liabilities		**18,467**	11,150
Reforestation obligations		**5,461**	5,118
Environmental liabilities		**1,977**	1,977
Employee liabilities		**100**	111
Convertible notes		**5,836**	5,578
Long term debt		**5,318**	5,738
Non-current liabilities		**18,692**	18,522
Total liabilities		**37,159**	29,672
Equity			
Share capital	9	**118,102**	117,899
Conversion option on convertible notes		**5,170**	5,187
Share-based compensation reserve		**971**	841
Deficit		**(30,682)**	(27,095)
Total equity		**93,561**	96,832
Total liabilities and equity		**130,720**	126,504

Contingencies - Note 11

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Conifex Timber Inc.

Condensed consolidated statement of changes in equity
period ended March 31, 2011 (unaudited)

(thousands of Canadian dollars)	Notes	Share capital	Conversion option on convertible notes	Share-based compensation reserve	Deficit	Total equity
		$	$	$	$	$
Balance at December 26, 2009		**31,021**	**4,095**	**277**	**(16,031)**	**19,362**
Net loss for the period December 27, 2009 to March 27, 2010		-	-	-	(1,646)	(1,646)
Recognition of share-based payments		-	-	71	-	71
Issue of convertible notes		-	1,092	-	-	1,092
Balance at March 27, 2010		**31,021**	**5,187**	**348**	**(17,677)**	**18,879**
Net loss for the period March 28, 2010 to December 31, 2010		-	-	-	(9,131)	(9,131)
Net effect of qualifying transaction		699	-	37	(287)	449
Capital introduced during the period		85,883	-	-	-	85,883
Exercise of stock options		47	-	-	-	47
Issue of common shares for payment in kind of interest on convertible notes		249	-	-	-	249
Recognition of share-based payments		-	-	456	-	456
Balance at December 31, 2010		**117,899**	**5,187**	**841**	**(27,095)**	**96,832**
Net loss for the three months ended March 31, 2011		-	-	-	(3,587)	(3,587)
Total recognized income and expense for the period		-	-	-	(3,587)	(3,587)
Issue of common shares upon conversion of notes	9	33	(17)	-	-	16
Issue of common shares upon vesting of share-based payment	9	170	-	-	-	170
Recognition of share-based payments		-	-	130	-	130
Total of other changes in equity		203	(17)	130	-	316
Balance at March 31, 2011		**118,102**	**5,170**	**971**	**(30,682)**	**93,561**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Conifex Timber Inc.

Condensed consolidated statement of cash flows
period ended March 31, 2011 (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended **March 31, 2011**	March 27, 2010
		$	$
Cash flows from operating activities			
Net loss		**(3,587)**	(1,646)
Items not affecting cash:			
Amortization		**1,374**	509
Changes in mark-to-market value of lumber price derivatives		**(874)**	282
Long-term portion of deferred reforestation obligation		**343**	34
Accretion of convertible notes and related financing cost		**274**	-
Share-based compensation		**300**	71
		(2,170)	(751)
Change in:			
Trade and other receivables		**(3,552)**	(1,015)
Prepaid expenses and deposits		**486**	293
Inventories	4	**(12,533)**	(5,948)
Accounts payable, accrued liabilities and other payables		**2,681**	3,127
Employee liabilities		**790**	261
Net cash used in operating activities		**(14,298)**	(4,032)
Cash flows from investing activities			
Additions to intangible assets		**(45)**	-
Additions to property, plant and equipment	8	**(3,591)**	(2,378)
Proceeds on disposal of assets held for sale	7	**792**	-
Net cash used in investing activities		**(2,844)**	(2,378)
Financing activities			
Proceeds from convertible notes		**-**	2,009
Net cash from financing activities		-	2,009
Net increase (decrease) in cash		**(17,142)**	(4,401)
Cash, beginning of period		**26,629**	6,077
Cash, end of period		**9,487**	1,676

Non cash transactions

The following non-cash transactions for the three months ended March 31, 2011 are excluded from the condensed consolidated statement of cash flows:

1) Proceeds from the sale of assets held for sale in the amount of $1.058 million which had not been received at March 31, 2011
2) Purchases of property, plant and equipment in the amount of $3.414 million which had not been paid at March 31, 2011
3) Conversion of convertible notes in the amount of $33,000.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

1. General information

Conifex Timber Inc. ("Conifex" or the "Company") is a public limited company incorporated and domiciled in Canada. Its shares are listed on the TSX Venture Exchange. The address of its registered office is 1000 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia ("BC") V6C 3L2.

The principal activities of the Company and its subsidiaries are described in Note 5.

The condensed consolidated financial statements of the Company for the three months ended March 31, 2011 were authorized for issue in accordance with a resolution of the directors on May 25, 2011.

The condensed consolidated financial statements have not been reviewed or audited.

2. Basis of preparation

The condensed consolidated financial statements for the three months ended March 31, 2011 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting (*"IAS 34"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2010.

3. Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2010, except for the adoption of the amendment as of January 1, 2011 noted below:

- *IAS 24 Related Party Transactions* (Amendment)

  The International Accounting Standards Board ("IASB") has issued an amendment to IAS 24 that clarifies the definitions of a related party. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

In addition to the above, the IASB has issued IFRS 9 – *Financial Instruments (Classification and Measurement)*, which is mandatory for accounting periods beginning January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its results of operations and financial position.

4. Seasonality of operations

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 road conditions.

5. Operating segment information

The Company is organized into business units based on their products and services and has two reportable segments as follows:

- Lumber - The main activities of the lumber segment include timber harvesting, reforestation, forest management, manufacture of logs into finished lumber and residual products at its sawmills and distribution of its finished products.

5. Operating segment information (continued)

- Bioenergy - The primary activities of the bioenergy segment will be the development of the bioenergy generation project at Mackenzie, BC as described in note 11 and the development of other opportunities in the bioenergy sector which are complementary to the Company's existing operating facilities and assets.

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	$	$	$	$
Three months ended March 31, 2011				
Sales to external customers	**21,177**	**-**	**-**	**21,177**
Net loss	**(2,878)**	**(247)**	**(462)**	**(3,587)**
Three months ended March 27, 2010				
Sales to external customers	12,076	-	-	12,076
Net loss	(887)	-	(759)	(1,646)

Revenues by geographic area were as follows:

	Three months ended	
	March 31, 2011	March 27, 2010
	$	$
Canada	**6,626**	4,069
United States	**7,069**	5,126
Asia	**7,482**	2,881
	21,177	12,076

All of the Company's operations are located in the interior region of British Columbia.

6. Inventories

	March 31, 2011	December 31, 2010
	$	$
Logs	**16,577**	5,729
Lumber	**7,324**	5,911
Supplies	**3,773**	3,502
	27,674	15,142

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at March 31, 2011 by $402,727 (December 31, 2010: $658,760; March 31, 2010: reversal of prior period write down of $531,641) and this amount is included in cost of goods sold.

7. Assets held for sale

During the three months ended March 31, 2011, the Company sold certain equipment classified as "assets held for sale" for proceeds of $317,880. The proceeds of the sale were credited towards the carrying value of the asset and there was no profit or loss recognized from the transaction.

8. Property, plant and equipment

During the three months ended March 31, 2011, the Company acquired assets with a cost of $7,005,241 (three months ended March 27, 2010: $4,230,893).

9. Share capital

During the three months ended March 31, 2011, the Company issued 4,133 common shares at $8 per share to convert notes with principal amounts totaling $33,000 and to pay related accrued interest. In addition, 14,928 common shares were issued as a result of the vesting of share awards granted under the Company's long term incentive plan. Share capital was credited at the fair market value of $11.40 per share as determined by the closing price of the shares on the date of issue.

10. Related party transactions

LJ Resources Co., Ltd.

Hebei Wenfeng Industrial Group ("Hebei") owns convertible notes and affiliates of Hebei own common shares of the Company. Hebei exercises significant influence by virtue of the shareholdings (assuming full conversion of convertible notes) of approximately 21%. Two employees of LJ Resources Co. Ltd. ("LJ") are members of the Board of Conifex. LJ is a wholly-owned subsidiary of Hebei.

The Company transacted sales of finished lumber products totaling $1,272,345 for the three months ended March 31, 2011 (three months ended March 31, 2010: $ nil) to LJ. The sales to the related party are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party receivables. The outstanding accounts receivable balance from LJ at March 31, 2011 was $413,712 (December 31, 2010: $211,259).

11. Contingencies

Softwood Lumber Agreement

On January 18, 2011, the U.S. triggered the arbitration provision of the 2006 Softwood Lumber Agreement ("SLA") by delivering a Request for Arbitration. The U.S. claims that BC has not properly applied the timber pricing system grandparented in the SLA. The U.S. also claims that subsequent to 2006, BC made additional changes to the timber pricing system which had the effect of reducing timber prices. The claim focuses on the substantial increases in Grade 4 (non sawlog or low grade) volumes commencing in 2007. It is alleged that timber was scaled and graded as Grade 4 that did not meet the criteria for that grade and was accordingly priced too low.

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

Equipment purchase related to bioenergy generation project at Mackenzie BC

On January 27, 2011, the Company entered into an Equipment Design, Engineering Sale and Service Agreement with an equipment manufacturer to arrange for the manufacture and purchase of a 36 megawatt per hour steam turbine generation set (the "Turbine") and ancillary equipment and services in connection with its planned bioenergy generation project (the "Bioenergy Project") at Mackenzie BC. The total cost of the purchase is approximately U.S. $10.5 million.

Equipment purchase related to bioenergy generation project at Mackenzie BC (continued)

Conifex is in discussions with BC Hydro in connection with a proposed energy purchase agreement and with respect to establishing energy savings arrangements at its Mills. Such agreement and arrangements, if completed, will be subject to regulatory approval.

As no agreement has yet been reached, and as any such agreement would be subject to regulatory approval, there can be no assurance that the Bioenergy Project will proceed as currently described or at all. In order to provide necessary flexibility, the Turbine acquisition agreement contains cancellation rights in favour of Conifex that may be exercised if the Bioenergy Project does not proceed. Cancellation of the agreement will subject the Company to payment of cancellation costs according to a predetermined and agreed upon schedule.

12. Events after the reporting period

Reassessment of property transfer tax

On April 27, 2011, the Company was reassessed property transfer tax in the amount of $559,489 related to the acquisition of the Mackenzie assets in June 2010. The Company intends to appeal the Minister's decision. An adjustment would be capital in nature and there has been no provision made for the reassessment in the condensed consolidated financial statements.