Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2013
(Unaudited)

Conifex Timber Inc.

March 31, 2013

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Conifex Timber Inc.

Condensed consolidated statement of net income (loss) and comprehensive income (loss)
period ended March 31, 2013 (unaudited)

(thousands of Canadian dollars)	Notes	3 months ended March 31, **2013**	2012
		$	$
Revenue		**66,222**	47,371
Costs and expenses			
Cost of goods sold		**46,477**	40,845
Freight and distribution costs		**9,460**	8,959
Export taxes		**-**	1,137
Selling, general and adminstrative		**3,689**	2,591
		59,626	53,533
Operating income (loss)		**6,596**	(6,162)
Loss on disposal of assets		**(25)**	-
Interest expense		**(844)**	(531)
Other income		**294**	588
Foreign exchange gain (loss)		**418**	(174)
Accretion of convertible debenture		**(257)**	(257)
		(416)	(374)
Income (loss) before tax		**6,181**	(6,536)
Current tax	6	**-**	2
Net income (loss) and comprehensive income (loss) for the period		**6,181**	(6,538)
Net income (loss) per common share: (in dollars)			
Basic		0.30	(0.38)
Diluted		**0.29**	(0.38)

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, 2013 (unaudited)

(thousands of Canadian dollars)	Notes	As at March 31, 2013	As at December 31, 2012
		$	$
Assets			
Current assets			
Cash	7	14,041	$12,061
Cash equivalents - restricted	7	2,352	2,002
Trade and other receivables		20,154	16,802
Prepaid expenses and deposits		5,023	5,541
Inventories	8	30,672	20,395
Assets held for sale		515	515
Current assets		**72,757**	**57,316**
Goodwill		2,066	2,066
Intangible assets		8,220	8,272
Property, plant and equipment		101,015	100,688
Deposits		335	335
Total assets		**184,393**	**168,677**
Liabilities			
Current liabilities			
Trade payables, accrued liabilities and other payables		27,439	24,385
Current portion of reforestation obligations		3,874	3,995
Employee liabilities		3,046	3,334
Operating loans	9	17,000	12,000
Current portion of long-term debt		1,889	1,873
Current liabilities		**53,248**	**45,587**
Reforestation obligations		4,487	3,376
Environmental liabilities		1,787	1,797
Employee liabilities		28	28
Other long-term liabilities		4,267	3,837
Convertible notes		8,035	7,772
Long-term debt	10	3,591	4,060
Non-current liabilities		**22,195**	**20,870**
Total liabilities		**75,443**	**66,457**
Equity			
Share capital		155,010	154,896
Conversion option on convertible notes		5,157	5,170
Contributed surplus		2,761	2,313
Deficit		(53,978)	(60,159)
Total equity		**108,950**	**102,220**
Total liabilities and equity		**184,393**	**168,677**

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

Conifex Timber Inc.

Condensed consolidated statement of changes in equity
period ended March 31, 2013 (unaudited)

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Contributed surplus	Deficit	Total equity
	$	$	$	$	$
Balance at December 31, 2011	**118,582**	**5,170**	**1,670**	**(43,973)**	**81,449**
Net loss for the three months ended March 31, 2012	-	-	-	(6,538)	(6,538)
Private placement of common shares, net of issue costs	26,943	-	-	-	26,943
Issue of common shares upon vesting of share-based payment	374	-	(353)	-	21
Recognition of share-based payments	-	-	112	-	112
Balance at March 31, 2012	**145,899**	**5,170**	**1,429**	**(50,511)**	**101,987**
Net loss for the period April 1, 2012 to December 31, 2012	-	-	-	(9,648)	(9,648)
Private placement of common shares, net of issue costs	8,670	-	-	-	8,670
Issue of common shares upon vesting of share-based payment	79	-	42	-	121
Issue of common shares for payment in kind of interest on convertible notes	248	-	-	-	248
Recognition of share-based payments	-	-	842	-	842
Balance at December 31, 2012	**154,896**	**5,170**	**2,313**	**(60,159)**	**102,220**
Net income for the three months ended March 31, 2013	-	-	-	6,181	6,181
Issue of common shares upon conversion of notes	26	(13)	-	-	12
Issue costs for private placement of common shares	(5)	-	-	-	(5)
Issue of common shares upon vesting of share-based payment	94	-	(75)	-	19
Issue of warrants on secured notes	-	-	320	-	320
Recognition of share-based payments	-	-	203	-	203
Balance at March 31, 2013	**155,010**	**5,157**	**2,761**	**(53,978)**	**108,950**

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

Conifex Timber Inc.

Condensed consolidated statement of cash flows
as at March 31, 2013 (unaudited)

(thousands of Canadian dollars)	3 months ended March 31, 2013	2012
	$	$
Cash flows from operating activities		
Net income (loss)	**6,181**	(6,538)
Items not affecting cash:		
Amortization	**2,001**	1,818
Change in mark-to-market value of lumber price derivatives	**157**	(97)
Change in reforestation obligations	**990**	1,267
Accretion of convertible notes and related financing cost	**257**	274
Interest expense	**844**	531
Share based compensation	**260**	92
Other	**55**	-
	10,745	(2,653)
Change in:		
Trade and other receivables	**(3,509)**	(5,864)
Prepaid expenses and deposits	**672**	126
Inventories	**(10,277)**	(12,499)
Accounts payable, accrued liabilities and other payables	**6,007**	4,616
Environmental liabilities	**(10)**	(25)
Employee liabilities	**(325)**	459
Net cash provided from (used in) operating activities	**3,303**	(15,840)
Cash flows from investing activities		
Additions to property, plant and equipment	**(4,747)**	(4,444)
Proceeds on disposal of assets held for sale	**-**	184
Net cash used in investing activities	**(4,747)**	(4,260)
Financing activities		
Private placement of common shares, net of issue costs	**(5)**	26,943
Proceeds of secured notes	**5,000**	-
Repayment of long-term debt	**(434)**	(418)
Interest expense paid	**(787)**	(68)
Net cash provided from financing activities	**3,774**	26,457
Net increase in cash and cash equivalents	**2,330**	6,357
Cash and cash equivalents, beginning of period	**14,063**	12,719
Cash and cash equivalents, end of period	**16,393**	19,076

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

In these notes, “Conifex” or the “Company” means Conifex Timber Inc. and its subsidiaries.

1. GENERAL INFORMATION

The primary business of Conifex in its lumber segment includes timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. Conifex's lumber products are sold in the United States, Chinese, Canadian and Japanese markets. The primary activity in its bioenergy segment is the development of a bioenergy generation plant at Mackenzie, BC.

Conifex is a publicly-traded company listed on the TSX Venture Exchange under the symbol CFF. The Company is incorporated under the *Canada Business Corporations Act* and is headquartered in Vancouver, BC, Canada.

The address of its registered office is 1000 Cathedral Place, 925 West Georgia Street, Vancouver, BC V6C 3L2.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting (“*IAS 34”) and do not include all of the information required for full annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2012 annual consolidated financial statements.

Changes in Accounting Policies

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

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

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

IFRS 13 – Fair Value Measurement

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

Amendments to *IAS 1 – Presentation of Financial Statements*

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

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. SEGMENT INFORMATION

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

- Lumber - The main activities of the lumber segment include timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. The Company markets and distributes its lumber products through its wholly-owned subsidiaries, Conifex Fibre Marketing Inc. ("CFMI") and Navcor Transportation Services Inc. ("Navcor"). Both CFMI and Navcor generate additional revenue from third party transactions.

- Bioenergy - The primary activities of the bioenergy segment are the development of a bioenergy generation project at Mackenzie, BC 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
	$	$	$	$
3 months ended March 31, 2013				
Sales to external customers	**66,222**	**-**	**-**	**66,222**
Operating income (loss)	**8,427**	**(159)**	**(1,672)**	**6,596**
Loss on disposal of assets	**(25)**	**-**	**-**	**(25)**
Interest expense	**-**	**-**	**(844)**	**(844)**
Other income	**294**	**-**	**-**	**294**
Foreign exchange gain	**-**	**-**	**418**	**418**
Accretion of convertible debenture	**-**	**-**	**(257)**	**(257)**
Income tax	**-**	**-**	**-**	**-**
Net Income (loss)	**8,696**	**(159)**	**(2,356)**	**6,181**
Amortization	**1,993**	**-**	**8**	**2,001**
Capital expenditures	**1,012**	**1,319**	**-**	**2,331**
Identifiable assets	**125,208**	**41,318**	**17,867**	**184,393**
3 months ended March 31, 2012				
Sales to external customers	47,371	-	-	47,371
Operating loss	(5,213)	(286)	(662)	(6,162)
Interest expense	-	-	(531)	(531)
Other income	588	-	-	588
Foreign exchange loss	-	-	(174)	(174)
Accretion of convertible debenture	-	-	(257)	(257)
Income tax	-	-	(2)	(2)
Net loss	(4,625)	(286)	(1,627)	(6,538)
Amortization	1,810	-	8	1,818
Capital expenditures	2,045	1,941	31	4,017
Identifiable assets	120,246	19,224	21,563	161,033

Revenues by geographic area were as follows:

	Three months ended March 31,	
	2013	2012
	$	$
United States	**31,946**	10,781
China and other	**16,839**	21,446
Canada	**11,472**	13,575
Japan	**5,965**	1,569
	66,222	47,371

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

6. INCOME TAX

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

7. CASH AND CASH EQUIVALENTS

	March 31, 2013	Dec. 31, 2012
	$	$
Cash at bank and in hand	**14,041**	12,061
Short term deposits - restricted	**2,352**	2,002
	16,393	14,063

8. INVENTORIES

	March 31, 2013	Dec. 31, 2012
	$	$
Logs	**16,469**	8,048
Lumber	**9,529**	8,086
By-products	**327**	43
Supplies and other	**4,347**	4,218
	30,672	20,395

Inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs are included in cost of goods sold when incurred. There were no inventory write-downs as at March 31, 2013 or December 31, 2012.

9. OPERATING LOANS

Issuance of $5 million senior secured notes in February 2013

On February 21, 2013, Conifex Power Limited Partnership ("CP Partnership"), a wholly-owned subsidiary of the Company, completed a senior secured financing agreement under the terms of which CP Partnership issued promissory notes (the "Notes") in the aggregate principal amount of $5 million. The Notes will expire on February 21, 2014 and bear interest at a rate of 12% per annum. CP Partnership may redeem the Notes, in

whole or in part, at any time on or after four months from the issue date of the Notes upon 15 days' notice and payment of interest accrued on the amount redeemed to the date of redemption, but otherwise at par.

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

The fair market value of each share purchase warrant is calculated using the Black Scholes option pricing model at $1.99. As the Notes were issued primarily to partially fund further development of CP Partnership's bioenergy project at Mackenzie, related issuance costs will be amortized over the term of the Notes and capitalized. For the three months ended March 31, 2013, the Company capitalized $29,614 related expense comprised of amortization of $24,605 warrant value and $5,009 interest expense.

Issuance of $12 million senior secured notes in December 2011

In December 2011, the Company issued senior secured promissory notes in the aggregate principal amount of $12 million. The promissory notes mature on December 31, 2012, subject to early redemption by the Company as provided in the notes, and bear interest rates of 10% for the first six months and 12% for the remaining term of the loan. The notes are secured by a General Security Agreement. As additional consideration for the loan, the Company issued share purchase warrants to the holders.

On December 10, 2012, the Company extended the maturity date of the $12 million senior secured notes to December 31, 2013. The interest rate remained unchanged at 12%, there was a one percent extension fee and the notes will be subject to a premium of 3.5% on any balance repaid after June 30,2013.

10. LONG-TERM DEBT

Long term debt is comprised of a secured loan facility provided under the Community Adjustment Fund ("CAF") loan program sponsored by the Northern Development Initiative Trust. The CAF loan carries a fixed interest rate of 3.75% and is repayable by twenty quarterly payments. The repayment period commenced June 2011. The CAF loan facility is fully drawn. The loan is secured by a General Security Agreement (excluding inventory and receivables) and a mortgage against certain properties. The Company repaid $433,548 of the CAF loan during the three months ended March 31, 2013 (Year ended December 31, 2012: $1,694,300).Long-term debt also includes a capital lease for mobile equipment. The capital lease expires in 2016 and the principle outstanding at March 31, 2013 was $350,610 (Year ended December 31, 2012: $369,572).

11. EVENTS AFTER THE REPORTING PERIOD

On April 2, 2013, the Company completed a $25 million senior secured revolving asset backed credit facility (The "Facility") with a leading Canadian chartered bank. The Facility is available for a term of 3 years. Conifex intends to utilize the Facility for working capital and for other permitted general corporate purposes.

A portion of the Facility, together with cash on hand, was used to repay in full the previously issued 12% senior secured notes of the Company in the principal amount of $12 million.