Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2023

(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at March 31, 2023 (unaudited)

(thousands of Canadian dollars)	Notes	**As at March 31, 2023**	As at December 31, 2022
		$	$
Assets			
Current assets			
Cash		**5,210.0**	8,438.6
Cash - restricted	8	**6,480.2**	6,784.0
Trade and other receivables		**16,797.3**	10,381.4
Prepaid expenses and deposits		**18,168.9**	18,462.3
Inventories	5	**46,840.1**	49,217.6
Current assets		**93,496.5**	93,283.9
Property, plant and equipment	6	**128,549.5**	129,911.6
Intangible assets		**3,026.0**	3,083.4
Goodwill		**1,875.0**	1,875.0
Long-term investments and other	13	**29,114.6**	29,109.2
Total assets		**256,061.6**	257,263.1
Liabilities			
Current liabilities			
Trade payables, accrued liabilities and other payables		**20,169.7**	17,183.4
Current portion of reforestation obligations		**4,077.5**	4,077.5
Employee liabilities		**1,488.5**	1,676.1
Operating loan	7	**12,500.0**	6,500.0
Current portion of long-term debt	8	**4,762.1**	4,739.5
Current liabilities		**42,997.8**	34,176.5
Reforestation obligations		**8,254.8**	7,134.5
Environmental liabilities		**1,311.8**	1,359.8
Other long-term liabilities		**7,674.7**	7,840.3
Long-term debt	8	**50,072.0**	51,561.4
Deferred income tax liabilities	9	**6,382.0**	8,923.3
Non-current liabilities		**73,695.3**	76,819.3
Total liabilities		**116,693.1**	110,995.8
Equity			
Share capital	10	**245,602.4**	245,602.4
Contributed surplus		**47,432.9**	46,274.6
Deficit		**(154,234.6)**	(146,177.1)
Accumulated other comprehensive income		**567.8**	567.4
Total equity		**139,368.5**	146,267.3
Total liabilities and equity		**256,061.6**	257,263.1

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

Conifex Timber Inc.

Condensed consolidated statements of net income (loss) and comprehensive income (loss)
period ended March 31, 2023 (unaudited)

		Three months ended March 31,	
(thousands of Canadian dollars)	Notes	**2023**	2022
		$	$
Revenue	11	**39,940.7**	71,821.2
Costs and expenses			
Cost of goods sold		**40,630.5**	40,133.7
Freight and distribution costs		**6,331.3**	6,333.6
Softwood lumber duties	13	**1,249.9**	4,978.0
Selling, general and administrative		**3,234.3**	3,262.3
		51,446.0	54,707.6
Operating income (loss)		**(11,505.3)**	17,113.6
Gain on disposal of assets		**-**	0.1
Finance costs and accretion		**(1,237.8)**	(1,126.2)
Foreign exchange gain (loss)		**(14.7)**	(246.8)
Other income		**2,159.0**	-
		906.5	(1,372.9)
Income (loss) before taxes		**(10,598.8)**	15,740.7
Income tax expense (recovery):			
Deferred	9	**(2,541.3)**	4,301.2
Net income (loss)		**(8,057.5)**	11,439.5
Other comprehensive income (loss)			
Foreign exchange translation of foreign operations, net of tax		**0.3**	(0.8)
Other comprehensive income (loss), net of tax		**0.3**	(0.8)
Total comprehensive income (loss) for the period		**(8,057.2)**	11,438.7
Net income (loss) per share, basic and diluted (in dollars)		**(0.20)**	0.28

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

Conifex Timber Inc.

Condensed consolidated statements of changes in equity
period ended March 31, 2023 (unaudited)

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	$	$	$	$	$
Balance at December 31, 2021	248,254.4	43,644.9	(162,631.0)	563.8	129,832.1
Net income for the three months ended March 31, 2022	-	-	11,439.5	-	11,439.5
Repurchase of common shares	-	3.6	-	-	3.6
Recognition of share-based payments	-	166.6	-	-	166.6
Foreign exchange translation of foreign operations, net of tax	-	-	-	(0.8)	(0.8)
Balance at March 31, 2022	248,254.4	43,815.1	(151,191.5)	563.0	141,441.0
Net income for the period from April 1, 2022 to December 31, 2022	-	-	13,053.2	-	13,053.2
Repurchase of common shares	(2,738.4)	1,966.9	-	-	(771.5)
Issue of comment shares upon vesting of share-based payment	86.4	(86.4)	-	-	-
Recognition of share-based payments	-	579.0	-	-	579.0
Dividends paid	-	-	(8,038.8)	-	(8,038.8)
Foreign exchange translation of foreign operations, net of tax	-	-	-	4.5	4.5
Balance at December 31, 2022	245,602.4	46,274.6	(146,177.1)	567.5	146,267.4
Net loss for the three months ended March 31, 2023	**-**	**-**	**(8,057.5)**	**-**	**(8,057.5)**
Recognition of share-based payments	**-**	**1,158.3**	**-**	**-**	**1,158.3**
Foreign exchange translation of foreign operations, net of tax	**-**	**-**	**-**	**0.3**	**0.3**
Balance at March 31, 2023	**245,602.4**	**47,432.9**	**(154,234.6)**	**567.8**	**139,368.5**

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

Conifex Timber Inc.

Condensed consolidated statements of cash flows
period ended March 31, 2023 (unaudited)

	Three months ended March 31,	
(thousands of Canadian dollars)	**2023**	2022
	$	$
Cash flows from operating activities		
Net income (loss)	**(8,057.5)**	11,439.5
Items not affecting cash:		
Amortization and depreciation	**2,497.1**	3,200.9
Change in reforestation obligations	**1,120.3**	2,119.5
Finance costs and accretion	**1,237.8**	1,126.2
Income tax expense (recovery)	**(2,541.3)**	4,301.2
Share-based compensation	**1,158.3**	166.6
Load Displacement Agreement accretion	**(156.9)**	(156.9)
Gain on disposal of assets	**-**	(0.1)
Share of loss of joint venture	**3.5**	3.5
	(4,738.7)	22,200.4
Change in:		
Trade and other receivables	**(6,415.9)**	(7,112.7)
Prepaid expenses and deposits	**275.0**	4,303.2
Inventories	**2,377.5**	(19,023.1)
Trade payables, accrued liabilities and other payables	**2,971.9**	6,752.6
Environmental liabilities	**(48.1)**	298.6
Employee liabilities	**(187.6)**	(182.3)
Net cash provided from (used in) operating activities	**(5,765.9)**	7,236.7
Cash flows from investing activities		
Additions to property, plant and equipment	**(1,063.6)**	(2,766.8)
Net proceeds from insurance claim settlement	**-**	101.0
Proceeds on disposal of assets, net	**-**	0.1
Net cash provided from (used in) investing activities	**(1,063.6)**	(2,665.7)
Cash flows from financing activities		
Proceeds of operating loan	**6,000.0**	6,500.0
Repurchase of common shares	**-**	3.6
Repayment of leases	**(241.9)**	(306.4)
Repayment of term loans	**(1,266.8)**	(1,214.4)
Interest paid	**(1,194.5)**	(1,004.0)
Change in restricted cash	**303.9**	(101.2)
Net cash provided from (used in) financing activities	**3,600.7**	3,877.6
Net increase (decrease) in cash	**(3,228.8)**	8,448.6
Foreign exchange effect on cash	**0.2**	(0.8)
Cash, beginning of period	**8,438.6**	6,354.0
Cash, end of period	**5,210.0**	14,801.8

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

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

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

1. NATURE OF OPERATIONS

The primary business of Conifex includes timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing and the production of electricity for external sale and internal supply. Conifex's lumber products are sold primarily in the United States, Canadian, and Japanese markets.

Conifex is a publicly traded company listed on the Toronto Stock 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, 2022, 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, 2022 annual consolidated financial statements.

4. SEASONALITY OF OPERATIONS

The Company’s fibre inventories exhibit seasonal swings as the Company increases log inventories at its mill during the fall and winter months to ensure adequate supply of fibre to its mill during the spring months when logging operations are largely curtailed due to road conditions.

The operating results of the bioenergy operation will experience variability as a result of the application of a “time of delivery factor” to electricity pricing which adds a seasonal effect to quarterly revenues. The lowest revenues are expected to be generated in the spring months and the highest in the fall and winter months of each year.

5. INVENTORIES

	March 31, 2023	December 31, 2022
	$	$
Logs	**30,651.0**	33,493.4
Lumber	**5,573.0**	5,397.4
Supplies	**6,928.3**	6,474.1
By-products	**3,687.8**	3,852.7
	46,840.1	49,217.6

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down by $2.3 million at March 31, 2023 (December 31, 2022 – $2.2 million). Write-downs are included in cost of goods sold when incurred.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Right of use assets	Capital work in progress	Total
	$	$	$	$	**$**
Cost					
At December 31, 2021	2,912.8	201,146.1	3,197.1	2,242.7	**209,498.7**
Net additions *	-	8,754.6	311.2	3,709.7	**12,775.5**
Disposals	-	(157.3)	(148.4)	-	**(305.7)**
At December 31, 2022	2,912.8	209,743.4	3,359.9	5,952.4	**221,968.5**
Net additions *	-	3,000.8	28.0	(765.2)	**2,263.6**
Disposals	-	-	-	-	**-**
At March 31, 2023	**2,912.8**	**212,744.2**	**3,387.9**	**5,187.2**	**224,232.1**
Accumulated depreciation					
At December 31, 2021	-	(82,375.5)	(1,695.6)	-	**(84,071.1)**
Depreciation charge for the year	-	(7,641.4)	(638.1)	-	**(8,279.5)**
Disposals	-	121.0	172.7	-	**293.7**
At December 31, 2022	-	(89,895.9)	(2,161.0)	-	**(92,056.9)**
Depreciation charge for the period	-	(2,263.3)	(162.4)	-	**(2,425.7)**
At March 31, 2023	**-**	**(92,159.2)**	**(2,323.4)**	**-**	**(94,482.6)**
Carrying amount					
At December 31, 2022	2,912.8	119,847.5	1,198.9	5,952.4	129,911.6
At March 31, 2023	**2,912.8**	**120,585.0**	**1,064.5**	**5,187.2**	**129,749.5**

* Insurance proceeds received during the three months ended March 31, 2023 of nil (year ended December 31, 2022 – $0.7 million) have been netted against the capital work in progress additions

7. OPERATING LOAN

The Company entered into a three-year $10.0 million secured revolving asset based credit facility (the "ABL Facility") with a chartered bank in October 2020. On March 8, 2022, the Company completed an amendment to the ABL Facility which increased the limit from $10.0 million to $15.0 million. Under the terms of the ABL Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, net of specific reserves.

On March 21, 2023, the Company entered into an amended and restated secured revolving credit facility in the amount of $25.0 million. The amended and restated facility is for a term of three years and replaces the existing ABL Facility with the same lender.

Borrowings can be in Canadian or US dollars. Interest rates on borrowings are based on either Canadian Dollar Offered Rate ("CDOR") or Secured Overnight Financing Rate ("SOFR"), plus an applicable margin.

The Company initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16) (the "Phase 2 Amendments") effective January 1, 2021. The Phase 2 Amendments provide practical relief from certain requirements in IFRS standards relating to the modification of financial instruments, lease contracts, or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

At March 31, 2023, these amendments did not affect the Company's consolidated financial statements as the Company has not yet transitioned any agreements that are exposed to CDOR to an alternative benchmark interest rate.

The portion of the commitment that is not drawn is subject to a standby fee. The ABL Facility is primarily secured by a first priority security interest on certain existing and after acquired lumber operations assets. The Company is subject to customary covenants, including a fixed charge coverage ratio.

As at March 31, 2023, the Company has drawn $12.5 million against the ABL Facility (December 31, 2022 – $6.5 million).

8. BORROWINGS

	March 31, 2023	December 31, 2022
	$	$
Non-current		
Leases (a)	**1,211.0**	1,426.4
CP Partnership term loan (b)	**48,861.0**	50,135.0
Total non-current	**50,072.0**	51,561.4
Current		
Current portion of leases (a)	**1,013.0**	1,039.5
Current portion of CP Partnership term loan (b)	**3,749.1**	3,700.0
Total current portion	**4,762.1**	4,739.5
Total borrowings	**54,834.1**	56,300.9

(a) Leases

Leases are for office spaces, mobile and other equipment. The leases expire between 2023 and 2027 and the weighted average incremental borrowing rate is 5.7% per annum. The principal balance outstanding at March 31, 2023 was $2.2 million (December 31, 2022 – $2.5 million).

Interest expense on lease obligations for the three months ended March 31, 2023 was nil (year ended December 31, 2022 – $0.1 million), Total payments for leases, including interest, in the period was $0.3 million (year ended December 31, 2021 – $1.5 million).

(b) CP Partnership term loan

CP Partnership, a wholly-owned subsidiary of the Company, completed a $70.0 million secured term loan (the "CP Partnership Term Loan") with a syndicate of private lenders in October 2018. The CP Partnership Term Loan is for a term of 15 years, repayable quarterly commencing December 2018 and bears interest at a fixed rate of 6.1% per annum. On December 4, 2019, an amendment to the CP Partnership Term Loan resulted in a temporary increase in the fixed rate interest rate of 0.5% applicable for the period from the amendment date to January 31, 2021.

The CP Partnership Term Loan is primarily secured by a first priority security interest on existing and after acquired assets of the bioenergy operations. The CP Partnership Term Loan is non-recourse to the Company's other operations.

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

Under the terms of the CP Partnership Term Loan agreement, a distribution test must be met for the cash held by CP Partnership to be available to the Company's other operations. CP Partnership was in compliance with debt covenants under the CP Partnership Term Loan.

As at March 31, 2023, CP Partnership held $6.5 million of cash in restricted accounts (December 31, 2022 – $6.8 million). Funds from restricted accounts are distributed in accordance with the terms of the CP Partnership Term Loan.

Deferred financing costs of $1.8 million were netted against the CP Partnership Term Loan as at March 31, 2023 (December 31, 2022 – $1.8 million).

9. INCOME TAX

The components of income tax expense (recovery) for operations are as follows:

	Three months ended March 31,	
	2023	2022
	$	$
Deferred	**(2,541.3)**	4,301.2
	(2,541.3)	4,301.2

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	Three months ended March 31,	
	2023	2022
	$	$
Income (loss) before taxes	**(10,598.8)**	15,740.7
Income tax expense at corporation rate		
of 27.0% (2022 – 27.0%)	**(2,861.7)**	4,250.0
Non-deductible (non-taxable) items for tax purposes	**320.2**	51.2
Other	**0.2**	-
Total income tax expense (recovery)	**(2,541.3)**	4,301.2

10. SHARE CAPITAL

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount
		$
Balance at December 31, 2021 and March 31, 2022	40,149	248,254.4
Repurchase of common shares	(443)	(2,738.4)
Shares vested under share-based compensation plan during the period from April 1 to December 31, 2022	45	86.4
Balance at December 31, 2022 and March 31, 2023	**39,751**	**245,602.4**

On August 9, 2022, the Company's Board of Directors approved a normal course issuer bid ("NCIB") for the purchase of up to 2,461,765 common shares, representing 10% of the Company's public float. The NCIB commenced on September 1, 2022 and expires on August 31, 2023.

The Company did not repurchase any common shares during the three-month period ended March 31, 2023 (year ended December 31, 2022 – 443,100 common shares for $0.8 million). In connection with the repurchases, nil (year ended December 31, 2022 – $2.7 million) was charged against share capital based on the average per share amount for common shares as at the transaction dates and a recovery of nil (year ended December 31, 2022 – $2.0 million) was charged to contributed surplus.

11. REVENUE

The Company has one reportable segment comprising of activities that include timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing, and generation of electrical power that is complementary to the Company's harvesting and manufacturing operations.

	Three months ended March 31,	
	2023	2022
	$	$
Lumber	**27,034.7**	60,967.9
Lumber by-products and other	**8,412.7**	2,853.6
Bioenergy	**4,493.3**	7,999.7
	39,940.7	71,821.2

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

Revenues by geographic area were as follows:

	Three months ended March 31,	
	2023	2022
	$	$
United States	**21,369.2**	37,168.3
Canada	**16,684.0**	21,676.3
Japan	**1,887.5**	12,976.6
	39,940.7	71,821.2

The Company's harvesting, manufacturing and power generation operations are located in Mackenzie, British Columbia, Canada.

12. FINANCIAL INSTRUMENTS

The Company's financial assets, with the exception of certain derivative instruments, and financial liabilities are measured at amortized cost subsequent to initial recognition. Cash and cash equivalents and derivative instruments are measured at fair value through profit and loss.

Financial assets and liabilities that are measured subsequent to initial recognition at fair value are classified within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company did not hold any financial instrument measured at fair value at March 31, 2023 and December 31, 2022.

13. COUNTERVAILING AND ANTI-DUMPING DUTIES

On November 25, 2016, a coalition of US lumber producers petitioned the US Department of Commerce ("USDOC") and the US International Trade Commission ("USITC") to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy countervailing ("CV") and anti-dumping ("AD") duties against Canadian imports of softwood lumber. On January 6, 2017, a preliminary determination was announced by the USITC that there was reasonable indication that the US industry is materially injured by imports of Canadian softwood lumber products and the USDOC imposed duties on such shipments into the US.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, but subsequently amended to 6.04%.

The USDOC published the final CV and AD duty rates based on the completion of its first administration review of shipments for the years ended December 31, 2017 and 2018 on December 1, 2020, and November 30, 2020, respectively. The final 2018 CV and AD duty rates of 7.42% and 1.57% respectively, was applied as the cash deposit rate on lumber shipments from the publication date until publication of the final rates under the second administration review.

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

On December 2, 2021, the USDOC published its final determination of the second administrative review of shipments for the year ended December 31, 2019. The final 2019 CV and AD duty rates of 6.32% and 11.59% respectively was applied as the cash deposit rate on new lumber shipments from the date of publication until publication of the final rates under the third administrative review.

On August 9, 2022, the USDOC issued the final rates for the third administrative review of shipment for the year ended December 31, 2020. The final 2020 CV and AD rates of 3.83% and 4.76% respectively will be applied to new lumber shipment as the cash deposit rate.

The USDOC initiated the fourth administrative review on March 9, 2022. On January 24, 2023, the USDOC issued its preliminary determination for shipments in the year ended December 31, 2021. The preliminary 2021 CV and AD duty rates are 2.19% and 6.05% respectively for a total of 8.24%. The USDOC may further amend these preliminary duty rates at any time, with final rate determination expected to be published in August 2023.

The USDOC initiated the fifth administrative review on March 14, 2023 covering shipments for the 2022 fiscal period and preliminary results are expected no later than January 2024.

The following table summarizes the cash deposit and final rates that are in effect for each period:

Effective dates	**Cash deposit rates**	**Final rates**
January 1, 2019 to December 31, 2019		
CV	14.19%	6.32%
AD	6.04%	11.59%
Total	20.23%	17.91%
January 1, 2020 to November 30, 2020		
CV	14.19%	3.83%
AD[1]	6.04%	4.76%
Total	20.23%	8.59%
December 1, 2020 to December 31, 2020		
CV	7.42%	3.83%
AD	1.57%	4.76%
Total	8.99%	8.59%
January 1, 2021 to December 1, 2021		
CV	7.42%	N/A
AD	1.57%	N/A
Total	8.99%	N/A

[1] The cash deposit AD rate for November 30, 2020 was 1.57%, for a combined total cash deposit rate of 15.76%.

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

Effective dates	Cash deposit rates	Final rates
December 2, 2021 to January 9, 2022		
CV	6.31%	N/A
AD	11.59%	N/A
Total	17.90%	N/A
January 10, 2022 to August 8, 2022		
CV	6.32%	N/A
AD	11.59%	N/A
Total	17.91%	N/A
August 9, 2022 to March 31, 2023		
CV	3.83%	N/A
AD	4.76%	N/A
Total	8.59%	N/A

The Company expensed CV and AD duty deposits totaling $1.2 million in the three months ended March 31, 2023 (year ended December 31, 2022 – $9.6 million), based on the cash deposit rates in effect at the time of the shipment.

Notwithstanding the cash deposit rates and published final rates assigned under the investigations, the Company's final liability for the assessment of CV and AD will not be determined until each annual administrative review process is complete and related appeal processes are completed. Cumulative duties of US$32.2 million paid by the Company, net of sales of the right to refunds, since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions.

At March 31, 2023, net duty recoverable of $5.7 million (December 31, 2022 - $5.7 million) and interest accrued on the net duty recoverable is included on the company's condensed consolidated balance sheet as a long-term receivable, reflecting the difference between the cash deposit rate in effect and the final published CV and AD rates for the period between January 1, 2019 and December 31, 2020.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, the Company denies the US allegations and strongly disagrees with the current CV and AD determinations made by the USDOC. The Federal Government has proceeded with legal challenges under the North American Free Trade Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.