

Consolidated financial statements of

Conifex Timber Inc.

December 31, 2025 and 2024



Independent auditor's report

To the Shareholders of Conifex Timber Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Conifex Timber Inc. and its subsidiaries (together, the Company) as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2025 and 2024;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of property, plant and equipment and goodwill</p> <p>Refer to note 2 – Material accounting policies, note 5 – Property, plant and equipment and note 6 – Intangible assets and goodwill to the consolidated financial statements.</p> <p>As at December 31, 2025, the carrying amounts of property, plant and equipment (PP&E) and goodwill were \$111 million and \$2 million, respectively. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Evaluated how management determined the recoverable amount of the CGU under the value in use method, which included the following:<ul style="list-style-type: none">– Tested the appropriateness of the method used by management and tested the mathematical accuracy of the discounted cash flow model.

Key audit matter

How our audit addressed the key audit matter

not be recoverable. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of assessing impairment, assets are grouped into cash-generating units (CGUs). CGUs are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of a CGU exceeds its recoverable amount, the difference is recorded as an impairment charge in the consolidated statement of net loss. The recoverable amount is the higher of fair value less costs of disposal and value in use. Management determined the recoverable amount of its CGU based on the value in use method using a discounted cash flow model. The key assumptions used by management in estimating the recoverable amount included product pricing, production volume, operating costs and the discount rate.

We considered this a key audit matter due to the judgment by management in determining the recoverable amount of the Company's CGU, including the development of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.

- Tested the underlying data used in the discounted cash flow model.
- Tested the reasonableness of product pricing by comparing them with external market and industry data and tested the reasonableness of production volume by comparing them to volume historically achieved by the CGU.
- Tested the reasonableness of operating costs by comparing them to third-party forecasts of operating costs, where applicable, and to historical operating costs incurred by the CGU.
- Professionals with specialized skill and knowledge in the field of valuation assisted us in testing the reasonableness of the discount rate applied by management based on available data of comparable companies.
- Tested the disclosures made in the consolidated financial statements particularly with regard to the sensitivity of the key assumptions used by management.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia

March 21, 2026

Conifex Timber Inc.

Consolidated balance sheets

As at December 31, 2025 and 2024

(thousands of Canadian dollars)	Notes	As at December 31, 2025	As at December 31, 2024
		\$	\$
Assets			
<i>Current assets</i>			
Cash		4,433.3	3,644.6
Cash - restricted	11	2,494.5	3,989.5
Trade and other receivables		6,020.7	7,418.7
Prepaid expenses and deposits		13,758.2	15,737.0
Inventories	4	13,117.7	14,411.7
Current assets		39,824.4	45,201.5
Property, plant and equipment	5	111,293.3	117,489.1
Intangible assets	6	3,052.7	3,152.4
Goodwill		1,875.0	1,875.0
Long-term investments and other	7	30,350.9	30,208.6
Deferred income tax assets	20	21,270.8	5,957.8
Total assets		207,667.1	203,884.4
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		30,216.9	19,827.3
Current portion of reforestation obligations	8	3,099.9	2,231.0
Employee liabilities		555.1	638.8
Current portion of long-term debt	11	86,314.0	7,022.4
Current liabilities		120,185.9	29,719.5
Reforestation obligations	8	10,364.5	9,546.9
Environmental liabilities	9	1,294.2	1,294.1
Other long-term liabilities	10	6,393.4	7,186.9
Long-term debt	11	1,337.5	70,295.7
Long-term duty payable		18,351.2	-
Non-current liabilities		37,740.8	88,323.6
Total liabilities		157,926.7	118,043.1
Equity			
Share capital	12	246,391.2	246,391.2
Contributed surplus		45,045.0	45,478.2
Deficit		(242,265.3)	(206,598.8)
Accumulated other comprehensive income		569.5	570.7
Total equity		49,740.4	85,841.3
Total liabilities and equity		207,667.1	203,884.4

Refer to going concern (note 1) and subsequent event (note 26)

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

Approved by the Board

"Ken Shields"
Director, K. Shields

"Janine North"
Director, J. North

Conifex Timber Inc.

Consolidated statements of net loss and comprehensive loss

Years ended December 31, 2025 and 2024

(thousands of Canadian dollars)	Notes	Year ended December 31,	
		2025	2024
		\$	\$
Revenue	15	142,749.6	127,738.4
Costs and expenses			
Cost of goods sold		126,617.0	119,512.7
Freight and distribution costs		21,912.3	22,519.8
Softwood lumber duties	25	26,062.7	4,389.8
Selling, general and administrative	16	5,782.2	7,180.1
		180,374.2	153,602.4
Operating loss		(37,624.6)	(25,864.0)
Gain on disposal of assets		-	131.1
Finance costs and accretion	17	(12,650.9)	(7,988.8)
Gain on revaluation	7	16.5	(3,259.9)
Other income	18	523.9	3,072.3
Foreign exchange gain (loss)		(1,206.7)	1,163.5
		(13,317.2)	(6,881.8)
Loss before taxes		(50,941.8)	(32,745.8)
Income tax expense (recovery):	19		
Current		37.7	-
Deferred		(15,313.0)	(2,964.6)
		(15,275.3)	(2,964.6)
Loss from continuing operations		(35,666.5)	(29,781.2)
Net loss		(35,666.5)	(29,781.2)
Other comprehensive income (loss), net of tax			
Foreign exchange (loss) translation of foreign operations, net of tax		(1.0)	4.6
Other comprehensive income (loss), net of tax		(1.0)	4.6
Total comprehensive loss for the year		(35,667.5)	(29,776.6)
Net loss per share, basic and diluted (in dollars):	20		
Net loss per share from continuing operations - basic		(0.87)	(0.73)
Net loss per share from continuing operations - diluted		(0.87)	(0.73)

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

Conifex Timber Inc.

Consolidated statements of changes in equity

Years ended December 31, 2025 and 2024

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2023	246,259.6	45,483.3	(176,805.8)	566.1	115,503.2
Net loss for the year ended					
December 31, 2024	-	-	(29,781.2)	-	(29,781.2)
Issue of common shares upon vesting of share-based payment	131.6	(5.1)	-	-	126.5
Foreign exchange translation of foreign operations, net of tax	-	-	(11.8)	4.6	(7.2)
Balance at December 31, 2024	246,391.2	45,478.2	(206,598.8)	570.7	85,841.3
Net loss for the year ended					
December 31, 2025	-	-	(35,666.5)	-	(35,666.5)
Issue of common shares upon vesting of share-based payment	-	(433.2)	-	-	(433.2)
Foreign exchange translation of foreign operations, net of tax	-	-	-	(1.2)	(1.2)
Balance at December 31, 2025	246,391.2	45,045.0	(242,265.3)	569.5	49,740.4

Conifex Timber Inc.

Consolidated statements of cash flows
Years ended December 31, 2025 and 2024

(thousands of Canadian dollars)	Year ended December 31,	
	2025	2024
	\$	\$
Cash flows from operating activities		
Net loss	(35,666.5)	(29,781.2)
Items not affecting cash:		
Amortization and depreciation	10,888.0	11,158.1
Change in reforestation obligations	1,686.5	1,062.3
Finance costs and accretion	12,650.9	7,988.8
Income tax expense	(15,313.0)	(2,964.8)
Share-based compensation	(433.1)	126.4
Load Displacement Agreement accretion	(627.4)	(627.4)
Gain on disposal of assets	-	(483.7)
Share of loss of joint venture	(852.0)	3,705.0
	(27,666.6)	(9,816.5)
Change in:		
Trade and other receivables	1,397.5	(2,980.4)
Prepaid expenses and deposits	1,782.9	(1,799.4)
Inventories	1,294.1	8,577.7
Trade payables, accrued liabilities and other payables	27,979.5	654.3
Environmental liabilities	-	(15.6)
Employee liabilities	(83.8)	24.0
Net cash (used in) provided from operating activities	4,703.6	(5,355.9)
Cash flows from investing activities		
Additions to property, plant and equipment	(4,527.0)	(5,340.1)
Net cash (used in) investing activities	(4,527.0)	(5,340.1)
Cash flows from financing activities		
Proceeds of operating loan	-	26,347.3
Proceeds (repayment) of leases	(577.4)	230.7
Advances (repayment) of term loan	9,914.8	(12,882.5)
Financing fees	774.2	1,351.2
Interest paid	(10,993.5)	(6,396.0)
Change in restricted cash	1,495.0	1,494.6
Net cash provided from (used in) financing activities	613.1	10,145.3
Net increase (decrease) in cash	789.7	(550.7)
Foreign exchange effect on cash	(1.0)	4.6
Cash, beginning of year	3,644.6	4,190.7
Cash, end of year	4,433.3	3,644.6

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

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

(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 AND GOING CONCERN

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.

The Company's financial statements have been prepared under the assumption that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the ordinary course of business for the foreseeable future.

During the current year, the Company's financial results have been adversely impacted by tariffs and increased duties imposed by the United States (US) on softwood lumber imports. The Company has experienced higher costs and reduced margins, impacting operating profits and cash flows. The duty and tariff environment has also created uncertainty regarding future operating cash flows and profitability. The Company incurred a net loss of \$35.6 million and after adjustments for working capital items generated net cash from operating activities of \$4.7 million for the twelve months ended December 31, 2025. The Company funded duty deposits of \$2.8 million and \$10.8 million over the respective three- and twelve-month periods ended December 31, 2025.

Conifex's ability to continue as a going concern is dependent on its ability to realize positive cash flows from operations, as well as its ability to obtain additional financing from lenders and, as may be necessary, to amend the terms and timing of its debt repayment obligations or seek appropriate remedies or waivers from its lenders, none of which can be guaranteed. Subsequent to year end the Company secured a \$19 million secured term loan with the Business Development Bank of Canada ("BDC") under the Softwood Lumber Guarantee Program (the "BDC Loan") (see note 26). A portion of the BDC Loan was used to repay bridge advances from Conifex's existing senior secured timber lender and the remainder is available for working capital and general corporate purposes. The program is aimed at providing liquidity support to Canadian softwood lumber businesses impacted by current economic conditions and designed to help companies like Conifex fund their operational cash flow and support continuity of operations. The Company is also working to secure other federal support funding sources, however details on eligibility and funding timelines continue to be refined and no guarantee of funding through such sources is assured. The Company may also explore the sale of certain non-core assets to provide additional liquidity. Management has also implemented cost saving measures and is deferring non-essential capital expenditures.

Despite the above measures, there can be no assurance of the Company's ability to renegotiate existing financing, obtain new sources of funding, or realize on cash-saving measures. The Company's ability to continue as a going concern is dependent on its ability to realize positive cash flows from operations, as well as its ability to obtain additional financing from lenders, and amend its debt repayment terms and timing. The outcome of the foregoing, as well as ongoing trade negotiations and tariff policies, remains uncertain, and our ability to generate positive cash flows from operations is dependent on market prices for lumber, demand for the Company's products and/or increases in productivity resulting in higher volumes produced and lower costs, none of which can be assured. As a result, the Company has determined there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the Company be unable to continue as a going concern, which could be material.

The Company's PenderFund Loan (see Note 11) contains a covenant that the Company obtain an unqualified auditor's report, where "unqualified" includes no reference to a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. As a result of the going concern disclosure in Note 1, the Company did not meet this condition at the balance sheet date, and as such, has classified the PenderFund debt as current. Further, the foregoing triggered the same treatment of the CPLP debt pursuant to the terms of the CPLP Term Loan, therefore such amounts have also been classified as current as of

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

December 31, 2025. Under IAS 1 – Presentation of Financial Statements, a Company must apply covenants as at the reporting period date even if compliance with the covenant is assessed only after the reporting period. Subsequent to the reporting period, PenderFund confirmed its waiver of the covenant (see Note 11). As part of the debt agreement with BDC, PenderFund agreed to postpone its rights under an event of default to call the debt for 12 months from March 4, 2026.

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 Suite 2200, 1021 West Hastings Street, Vancouver, BC V6E 0C3.

2. MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance

The consolidated financial statements of Conifex have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IFRS Accounting Standards)

The consolidated financial statements were approved by the Board of Directors on March 21, 2026.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2.3 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses are eliminated on consolidation, where appropriate. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Joint ventures are accounted for using the equity method.

2.4 Functional and presentation currency

The Canadian dollar is the functional and presentation currency of the Company.

2.5 Foreign currency translation

Foreign currency denominated monetary assets and liabilities of the Company are translated using the rate of exchange prevailing at the reporting date. Revenues and expenses are measured at average rates during the period. Gains or losses on translation of these items are included in earnings.

Foreign operations with a functional currency that differs from the Company’s presentation currency have their assets and liabilities translated using the rate of exchange prevailing at the reporting date. Revenues and expenses are measured at average rates during the period. Foreign exchange differences are recognized in other comprehensive income.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

2.6 Cash

In the consolidated statement of cash flows, cash includes cash on hand, deposits held with banks, and other short-term highly liquid investments.

2.7 Financial instruments

(a) Non-derivative financial instruments

The Company measures non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market at amortized cost using the effective interest rate method. The amortized costs are reduced by any impairment losses. These financial assets are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the asset have been impacted.

(b) Derivative financial instruments

The Company at times utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and interest rate variability. Lumber derivatives are classified as financial assets at fair value through profit and loss ("FVTPL"). These financial assets are initially recognized at fair value on the date a lumber derivative contract is entered into and are subsequently re-measured at their fair value. The fair values are determined by using observable market inputs for identical assets and liabilities and thus reflect the estimated amount that the Company would have paid or received if required to settle all outstanding contracts at period end. The resulting gain or loss is recognized as a gain (loss) on lumber derivative instruments in the statement of net income each period unless the lumber derivative is designated as a hedging instrument under IFRS. If the lumber derivative is designated as a hedging instrument, any unrealized gains or losses are deferred and recognized in earnings when the related hedge transaction occurs.

(c) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction from the proceeds.

2.8 Inventories

Logs and lumber inventories are valued at the lower of average cost and net realizable value. The cost of logs and lumber comprises all costs that relate to purchasing, harvesting and delivery of the logs to their present location, plus costs of production, including labour, overhead and amortization. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost for completion and applicable variable selling expenses.

Operating and maintenance supplies are valued at the lower of average cost and replacement cost.

2.9 Goodwill and intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill impairment is assessed by comparing the fair value of the cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill. CGUs ar

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU exceeds its recoverable amount, the difference is recorded as an impairment charge in the consolidated statement of net loss. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

(b) Other intangible assets

Other intangible assets, comprising forestry licences and software licences, are stated at cost less accumulated amortization.

The forestry licences are amortized on a straight-line basis over 60 years. Software licences are amortized on a straight-line basis over their useful lives.

2.10 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets classified as held for sale are not depreciated. All other assets are depreciated on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Estimated useful lives of property, plant and equipment are reflected with the following rates:

Buildings and fixtures	2% - 5%
Computer hardware	10% - 50%
Machinery and equipment	5% - 50%
Mobile equipment	20% - 50%
Roads and bridges	10% - 50%

The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over their useful lives. These periods are assessed at least annually to ensure that they continue to approximate the useful lives of the related assets. The carrying amount of an asset is written down if it is determined to be greater than the asset's estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Property, plant and equipment includes right-of-use ("ROU") assets related to office spaces, mobile and other equipment. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.11 Government grants

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are recorded as a reduction to the cost base of the related asset and are credited to the income statement through the recognition of a lower depreciation expense than would be recognized in the absence of the grant.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped into CGUs. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Employee benefits

The Company has a defined contribution plan, which is a post-employment benefit plan under which the Company makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense when they are earned.

2.14 Provisions

Provisions for reforestation, environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is charged to the income statement in the same expense category as the original expense related to the obligation.

2.15 Share-based compensation

The Company operates a long-term performance incentive plan which provides for options, restricted share units, performance share units and deferred share units to be awarded as consideration for services from directors, employees and consultants. The fair value of the equity instrument and the employee services received in exchange for the grant of the options or share awards is measured at the grant date.

The share awards and stock options vest over multiple periods. The fair value of each tranche is considered to be a separate grant based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period based on the Company's estimate of equity instruments that will eventually vest.

2.16 Revenue recognition

Revenue from the sale of goods is measured based on the transaction price, net of rebates and discounts, as specified in contracts with customers. The Company recognizes revenue when transfer of control occurs.

Amounts charged to customers for freight and distribution are recognized as revenue as the services are provided. Freight and distribution costs and softwood lumber duties incurred by the Company are recorded to operating expenses in the income statement.

The Company markets and sells a range of lumber grades by various dimensions and by-products.

For lumber sales, revenue is recognized when control is transferred to the customer. The timing of the transfer of control varies depending on the individual terms of the contract of sale. The transfer of control typically occurs at the time lumber is loaded onto the mode of transportation. The amount of revenue recognized is adjusted for

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

discounts related to early payment and rebates related to purchase volumes at the time that control is transferred.

For lumber by-products sales, revenue is recognized when control over by-products is transferred to the customer. The timing of the transfer of control varies depending on the individual terms of the contract of sale. The transfer of control typically occurs at the time the by-products leave the Company's sawmill. The amount of revenue is recognized at that point in time. The Company does not offer discounts or rebates on by-products sales.

For bioenergy sales, revenue is recognized when control over electrical energy is transferred to the customer. The timing of the transfer of control and recognition of revenue occurs at the time electrical energy is generated as agreed to within the Electricity Purchase Agreement ("EPA") and Load Displacement Agreement ("LDA"). The Company does not offer discounts or rebates on electrical energy sales.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.18 Leases and ROU assets

At the inception of a contract, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease when it conveys the right to use an underlying asset over a period of time in exchange for consideration. The ROU assets will be initially measured at cost, which is the initial lease obligation amount plus any initial direct costs, and less any lease incentives received. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

The lease liability is initially measured based on the present value of the future lease payments discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize ROU assets and lease obligations for leases with a term of twelve months or less, and leases for low-value assets. Lease payments associated with these leases are recognized to the consolidated statement of net income as payments are made over the lease term.

2.19 Income taxes

The income tax expense for the period comprises current and deferred tax.

Current income tax is the expected tax payable on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team that makes strategic decisions.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

2.21 Critical judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make critical judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Such differences in estimates are recognized when realized on a prospective basis.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgements have been applied in a manner consistent with prior periods. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include valuation of inventory, income taxes, provision for accrued liabilities, environmental and reforestation obligations, impairment of non-financial assets and contingencies. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.22 Accounting standards issued and not yet adopted

In April 2024, the International Accounting Standards Board issued IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18"), which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces a specified structure for the income statement by requiring income and expenses to be presented into three defined categories of operating, investing, and financing, and by specifying certain defined totals and subtotals. Where company-specific measures related to the income statement are provided, IFRS 18 requires companies to disclose explanations around these measures, which are referred to as management-defined performance measures. IFRS 18 also provides additional guidance on principles of aggregation and disaggregation which apply to the primary financial statements and the notes. IFRS 18 will not affect the recognition and measurement of items in the financial statements, nor will it affect which items are classified in other comprehensive income and how these items are classified. The standard is effective for reporting periods beginning on or after January 1, 2027, with retrospective application required. The Company is currently in the process of assessing the impact of this new standard.

3. 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.

4. INVENTORIES

	2025	2024
	\$	\$
Logs	955.6	2,678.8
Lumber	4,164.1	4,559.4
Supplies	7,437.1	6,854.8
By-products	560.9	318.8
	13,117.7	14,411.7

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

(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 \$3.0M at December 31, 2025 (2024 – Nil). Write-downs are included in cost of goods sold when incurred.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Right of use assets	Capital work in progress	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
At December 31, 2023	2,912.8	216,140.8	3,556.7	3,598.7	226,209.0
Net additions *	-	3,695.0	1,849.9	(102.6)	5,442.3
Disposals	-	(1,528.0)	-	-	(1,528.0)
At December 31, 2024	2,912.8	218,307.8	5,406.5	3,496.1	230,123.3
Net additions *	-	4,104.2	235.1	4,269.3	8,608.6
Disposals	-	(299.0)	-	(4,111.4)	(4,410.4)
At December 31, 2025	2,912.8	222,113.0	5,641.6	3,654.0	234,321.5
<i>Accumulated depreciation</i>					
At December 31, 2023	-	(100,242.3)	(2,847.9)	-	(103,090.2)
Depreciation charge for the year	-	(10,328.4)	(714.7)	-	(11,043.1)
Disposals	-	1,499.2	-	-	1,499.2
At December 31, 2024	-	(109,071.5)	(3,562.6)	-	(112,634.1)
Depreciation charge for the year	-	(10,163.2)	(529.9)	-	(10,693.1)
Disposals	-	299.0	-	-	299.0
At December 31, 2025	-	(118,935.7)	(4,092.5)	-	(123,028.2)
<i>Carrying amount</i>					
At December 31, 2024	2,912.8	109,236.3	1,843.9	3,496.1	117,489.1
At December 31, 2025	2,912.8	103,177.3	1,549.1	3,654.0	111,293.3

* Insurance proceeds of nil received during the year ended December 31, 2025 (2024 - \$3.3 million) have been netted against capital work in progress additions.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

6. INTANGIBLE ASSETS AND GOODWILL

	Forestry licences	Software licences	Total
	\$	\$	\$
<i>Cost</i>			
At December 31, 2024	5,299.1	1,128.1	6,427.2
Net disposals	(114.9)	-	(114.9)
At December 31, 2025	5,184.2	1,128.1	6,312.3
<i>Accumulated amortization</i>			
At December 31, 2024	(2,400.1)	(874.6)	(3,274.7)
Amortization charge for the year	(116.6)	(8.4)	(125.0)
Disposals	-	140.1	140.1
At December 31, 2025	(2,516.7)	(742.9)	(3,259.6)
<i>Carrying amount</i>			
At December 31, 2024	2,899.0	253.5	3,152.5
At December 31, 2025	2,667.5	385.2	3,052.7

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill impairment, as well as impairment of property, plant and equipment and intangible assets, is assessed by comparing the fair value of the cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill, property, plant and equipment and intangible assets. CGUs are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU exceeds its recoverable amount, the difference is recorded as an impairment charge in the consolidated statement of net loss. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purpose of the annual impairment assessment at December 31, 2025, goodwill is attributable to the Company's sawmill and power plant CGU. Management determined the recoverable amounts based on the value in use method using a discounted cash flow model.

Cash flow projections were based on internal estimates for 2026 through 2029 and a terminal value, drawing on both historical operating results and forward-looking projections, including the most recent approved annual business plan and budget. Key assumptions include product pricing, production volume, operating costs and discount rate. The values assigned to key assumptions reflect management's assessment of future trends in the forest products and power generation industries and are informed by both external market information and historical operating data.

The after-tax discount rate of 10.4% applied in determining the recoverable amount of the CGU was based on the Company's after-tax weighted average cost of capital, reflecting current market assessments of the time value of money and the risks specific to the sawmill and power plant operations. The equivalent pre-tax discount rate was 12.8%.

The recoverable amount of the sawmill and power plant CGU as at December 31, 2025 exceeded its carrying amount. Accordingly, no impairment was recognized for the year ended December 31, 2025. A reasonably possible change in certain key assumptions could cause the carrying value to exceed the recoverable amount. The estimated recoverable amount of the CGU exceeded its carrying amount by approximately \$18 million. A

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

3% change in product pricing, a 11% change in production volumes, or 2% change in operating costs would result in the recoverable amount equaling the carrying value.

7. LONG-TERM INVESTMENTS AND OTHER

	2025	2024
	\$	\$
Joint venture investment	16,253.0	16,239.1
Duty deposits receivable (note 25)	11,121.2	11,090.4
Timber inventory development	2,232.9	2,232.9
Deposits and long-term receivables	743.7	646.2
	30,350.9	30,208.6

The Company's 50% ownership interest in a company which holds a forestry license with an annual timber harvest of 237,988 m³ is classified as a joint venture. The principal place of business is in Canada. At December 31, 2025, the carrying value of the equity investment is \$16.2 million (2024 – \$16.2 million).

The joint venture agreement in relation to the Company required unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets, primarily the right to harvest timber, of the joint venture, and they are jointly and severally liable for the liabilities incurred. The material assets of the joint venture relate to non-current timber rights of approximately \$1.7M. Substantially all of the joint venture's non-current assets relate to timber rights. Other assets and liabilities are not significant.

8. REFORESTATION OBLIGATIONS

	2025	2024
	\$	\$
Reforestation obligations		
Current	3,099.9	2,231.0
Non-current	10,364.5	9,546.9
	13,464.4	11,777.9
	2025	2024
	\$	\$
Balance at beginning of year	11,777.9	10,715.6
Additional provisions recognized	2,908.7	3,800.5
Reductions arising from payment	(1,222.2)	(2,255.8)
Change arising from re-measurement or settlement without cost	-	(482.4)
	13,464.4	11,777.9

The total undiscounted amount of the future estimated expenditures required to settle the reforestation obligation at December 31, 2025 is \$15.2 million (2024 – \$13.5 million). The reforestation expenditures are expected to occur over the next one to 20 years and have been discounted at a risk-free interest rate of 4.25% (2024 – 4.25%). Reforestation expenses resulting from obligations arising from current year activities, changes in estimated future expenses and accretion of the discount are included in cost of sales

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

for the year.

9. ENVIRONMENTAL LIABILITIES

	\$	\$
Balance at beginning of year	1,294.2	1,309.8
Reductions arising from payment	-	(15.7)
	1,294.2	1,294.2

10. OTHER LONG-TERM LIABILITIES

	2025	2024
	\$	\$
Other liabilities	519.1	685.2
Deferred revenue	5,874.3	6,501.7
	6,393.4	7,186.9

Deferred revenue of \$5.9 million (2024 – \$6.5 million) comprises the incentive funds drawn under the LDA with BC Hydro and is secured by letters of credit totaling \$3.0 million (2024 – \$3.0 million). The incentive funding is recognized in earnings over the term of the LDA. The incentive funding began on April 30, 2015 and has a term of 20 years. The Company recognized \$0.6 million (2024 – \$0.6 million) of the incentive funding as revenue during the year.

11. BORROWINGS

	2025	2024
	\$	\$
Non-current		
Leases (a)	1,337.4	2,459.5
CPLP Term loan (b)	-	44,836.0
PenderFund Term Loan (c)	-	23,000.0
Total non-current borrowings	1,337.4	70,295.5
Current		
Current portion of leases (a)	1,010.0	774.9
Current portion of CPLP Term loan (b)	35,936.3	4,247.6
Current portion of PenderFund Term Loan (c)	49,367.7	2,000.0
Total current borrowings	86,314.0	7,022.5
Total borrowings	87,651.4	77,318.0

(a) Leases

Leases are for office spaces, mobile and other equipment. The leases expire between 2026 and 2031 and the

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

weighted average incremental borrowing rate is 6.5% per annum. The principal balance outstanding at December 31, 2025 is \$2.3 million (2024 – \$3.2 million).

Interest expense on lease obligations for the year ended December 31, 2025 was \$0.1 million (2024 – \$0.1 million). Total payments for leases, including interest, in the year was \$0.9 million (2024 – \$1.2 million).

(b) CPLP Term Loan

CPLP, a wholly-owned subsidiary of the Company, completed a \$70.0 million secured term loan (the "CPLP Term Loan") with a syndicate of private lenders in October 2018. The CPLP Term Loan is for a term of 15 years, repayable quarterly commencing December 2018 and bore interest at a fixed rate of 6.1% per annum. In March 2024, CPLP amended the CPLP Term Loan to, among other things, release certain restricted cash thereunder, the proceeds of which were applied to pay down the PenderFund Term Loan (as defined below). Following this amendment, the CPLP Term Loan bears interest at a stepped-up interest rate per annum commencing at 7.35%¹.

The CPLP Term Loan is primarily secured by a first priority security interest on existing and after acquired assets of the bioenergy operations. The CPLP Term Loan is substantially non-recourse to the Company's other operations. We continue to work on additional amendments that would allow us to remain in compliance with our obligations under the CPLP Term Loan. There can be no assurance that any such amendments will be agreed to on terms acceptable to Conifex or at all. If Conifex is unsuccessful in negotiating such amendments or is unable to obtain a permanent or temporary waiver in lieu thereof, the lenders thereunder may seek remedies for any uncured defaults by Conifex of its contractual obligations under the CPLP Term Loan. During discussion with our lenders, the September principal payment was waived, and December principal payment has been deferred.

As at December 31, 2025, CPLP held \$2.5 million of cash in restricted accounts (2024 – \$3.98 million). Funds from restricted accounts are distributed in accordance with the terms of the CPLP Term Loan.

Deferred financing costs of \$1.5 million were netted against the CPLP Term Loan as at December 31, 2025 (2024 – \$1.5 million)

(c) PenderFund Term Loan

On June 12, 2024, the Company entered a \$25.0 million secured term loan (the "PenderFund Term Loan") with Pender Corporate Bond Fund ("PenderFund").

In January 2025, we amended the PenderFund Term Loan to increase the aggregate principal amount thereunder to up to \$41 million, of which \$5 million was drawn immediately and the remaining \$11 million was subject to completion of financial due diligence. We drew an additional \$3.5 million in the first quarter of 2025 (the "First Advance") to fund our log inventory build up prior to spring breakup, which was due at the end of the second quarter. Subsequent to the end of the second quarter, we entered into a letter of undertaking with Pender pursuant to which we agreed to repay \$500,000 of the First Advance in early July, and \$150,000 each month thereafter until the First Advance was repaid in full.

In September 2025 we drew an additional \$4.0 million, and in October 2025, we drew an additional \$1.0 million (collectively, the "Second Advance"), which we have agreed to repay on the later of January 31, 2027 and twelve months after funding the BDC Loan.

In December 2025, we drew an additional \$3.0 million (the "Third Advance"), which was due in the first quarter of 2026.

Subsequent to year end, in February 2026, PenderFund advanced an additional \$5 million (the "Fourth Advance"), to support working capital requirements and fund the resumption of two-shift operations at the Mackenzie Mill, which was due in the first quarter of 2026.

Subsequent to year end, in March 2026, the Third Advance and the Fourth Advance were repaid following Conifex's completion of the BDC Loan (see note 26). The total aggregate principal amount outstanding under the PenderFund Term Loan as at the date hereof is approximately \$34.8 million.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

In connection with the BDC Loan, Conifex, together with certain of its wholly-owned subsidiaries, BDC (as defined below), and PenderFund, entered into a priority agreement pursuant to which, among other things, PenderFund agreed that for a period of twelve months it would not, without BDC's prior written consent, cancel or restrict the availability of the PenderFund Term Loan or accelerate or take any enforcement measures with respect to any amounts owing to PenderFund, except in the case of certain material defaults.

The loan continues to have a term of five years from original issuance and is substantially on the same terms, including the same annual interest rate, provided that the First Advance and the Second Advance are repayable as described above.

As partial consideration for the loan, PenderFund has received a total of 4,320,000 warrants, with each warrant being exercisable into one common share for a period of five years on payment of \$0.50 per warrant.

12. SHARE CAPITAL

Authorized

Unlimited number of common voting shares without par value.

	Number of common shares (in thousands)	Amount
		\$
Balance at December 31, 2023	40,421	246,259.6
Repurchase of common shares	-	-
Shares vested under share-based compensation plan	346	131.6
Balance at December 31, 2024 & 2025	40,767	246,259.6

13. SHARE-BASED COMPENSATION

13.1 Long-term performance incentive plan

The Company operates a long-term performance incentive plan which provides for restricted share units, performance share units, deferred share units, and options to be awarded to directors, executives, employees and consultants. The Company measures the fair value of the services received as consideration for equity instruments indirectly by reference to the fair value of the equity instruments granted. The fair value is measured on the basis of an observable market price.

(a) Restricted share units

The following table illustrates the number and weighted average fair value ("WAFV") of, and movements in, restricted share units ("RSU") granted during the year:

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

	2025	2025	2024	2024
	Number	WAFV	Number	WAFV
		\$		\$
Outstanding at January 1	3,247,875	0.47	2,542,875	0.66
Granted during the year	1,204,804	0.23	1,375,000	0.66
Forfeited during the year	(930,000)	0.23	(323,730)	0.66
Vested during the year	-	-	(346,270)	0.38
Outstanding at December 31	3,522,679	0.23	3,247,875	0.47

RSUs generally vest on the third anniversary of the issuance date. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period.

Expense related to the grant of RSUs of nil were recognized in the year ended December 31, 2025 (2024 – Nil). The compensation expense is allocated between cost of goods sold and selling, general and administrative expense. Cash payments of \$Nil were made in regard to vested RSUs in the year ended December 31, 2025 (2024 – \$0.1 million).

(b) Performance share units

Performance share units (“PSUs”) generally vest on the third anniversary of the issuance date with the number of vesting shares determined by the 10-day volume-weighted average share price at vesting relative to the share price at issuance. Payments for vested units can be made in cash at the discretion of the Company’s Board of Directors. The Company records an expense based on the 10-day volume-weighted average share price at each balance sheet date. There are currently no PSUs granted or outstanding at December 31, 2025.

(c) Deferred share units

Deferred share units (“DSUs”) are awarded to directors who elect to have all or a portion of their directors’ fees compensated by DSU awards rather than cash. The election can be made annually. The DSUs may only be redeemed upon a director’s retirement from the Company, its subsidiaries or any affiliated entity. The number of DSUs awarded is determined by the 10-day volume-weighted average share price at the time of the award. The Company records an expense based on the 10-day volume-weighted average share price at each balance sheet date. No expense was recognized for the grant of DSUs in the years ended December 31, 2025 and 2024.

(d) Options

There are currently no options granted or outstanding as at December 31, 2025.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

14. WARRANTS

	Number of warrants (in thousands)	Amount \$
Balance at December 31, 2023	-	-
Warrants issued during 2024	3,600	-
Warrants cancelled during 2024	-	-
Balance at December 31, 2024	3,600	-
Warrants issued during 2025	720	-
Balance at December 31, 2025	4,320	-

In connection with the PenderFund Term Loan, the Company issued common share purchase warrants to purchase up to an aggregate of 4,320,000 common shares of the unissued capital stock of the Company at a price of \$0.50 per share until January 2030. The Company utilized the residual method to assign fair value of the warrants, and as the valuation of the debt issue in the credit agreement was equal to the recorded value of the term loan, therefore no valuation was assigned to the warrants in the transaction.

15. 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.

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

	2025	2024
	\$	\$
Lumber	100,969.2	93,464.7
Lumber by-products and other	16,195.9	10,565.4
Bioenergy	25,584.5	23,708.3
	142,749.6	127,738.4

Revenues by geographic area were as follows:

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

	2025	2024
	\$	\$
United States	79,033.3	79,007.7
Canada	63,716.4	46,799.6
Japan	-	1,931.2
	142,749.6	127,738.4

16. SELLING, GENERAL AND ADMINISTRATIVE

	2025	2024
	\$	\$
Salaries and benefits	2,357.7	2,583.8
Legal, professional and organizational	2,007.8	2,646.6
Selling and marketing expenses	135.8	112.6
Depreciation and amortization	335.6	771.3
Other administrative expenses	945.3	1,065.8
	5,782.2	7,180.1

17. FINANCE AND ACCRETION COSTS

	2025	2024
	\$	\$
Interest expense	11,823.5	6,464.6
Financing expense	827.4	1,524.3
	12,650.9	7,988.9

18. OTHER INCOME

	2025	2024
	\$	\$
Insurance claim settlement	-	3,004.0
Other income	523.9	68.4
	523.9	3,072.4

19. INCOME TAX

19.1 Current income taxes

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

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

	2025	2024
	\$	\$
Current	37.7	-
Deferred	(15,313.0)	(2,964.6)
	(15,275.3)	(2,964.6)

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

	2025	2024
	\$	\$
Loss before taxes	(50,941.8)	(32,745.8)
Income tax recovery at corporate rate of 27% (2024 - 27%)	(13,754.3)	(8,841.4)
Non-deductible (non-taxable) items for tax purposes	1,609.3	1,537.7
Change in deferred tax assets not recognized	(3,218.0)	(34.5)
Recognition of benefit of prior years tax losses	-	3,492.8
Other	87.7	880.8
Total income tax expense	(15,275.3)	(2,964.6)

19.2 Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet and the amounts used for income tax purposes. The Company has not recognized any tax assets related to its discontinued operations due to the uncertainty of future realization.

The source of deferred income tax assets (liabilities) is as follows:

	2025	2024
	\$	\$
Property, plant, equipment and intangibles	(21,493.0)	(21,800.5)
Reforestation and environmental obligations	3,984.8	3,529.4
Loss carryforwards	37,196.2	25,952.8
Other	1,582.8	(1,723.9)
	21,270.8	5,957.8

19.3 Non-capital loss carryforwards

As at December 31, 2025, the Company has non-capital losses from the following years:

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

Year of loss	Non-capital loss amount
	\$
2011	301.7
2013	267.5
2014	270.7
2015	84.9
2016	1,268.6
2017	5,813.6
2018	13,613.2
2019	38,430.7
2020	68,384.9
2021	40.5
2022	217.3
2023	58,069.5
2024	25,083.4
2025	19,422.2
	231,268.8

As at December 31, 2025, non-capital losses of \$66.4 million and \$164.9 million related to continuing and discontinued operations, respectively. The non-capital losses can be carried forward for 20 years from the year the loss was incurred.

20. NET INCOME PER SHARE

	Year ended December 31, 2025			Year ended December 31, 2024		
	Net income	Weighted average number of shares	Per share	Net income	Weighted average number of shares	Per share
	\$		\$	\$		\$
Basic and diluted						
Basic	(35,666.5)	40,767	(0.87)	(29,781.2)	40,602	(0.73)
Diluted	(35,666.5)	40,767	(0.87)	(29,781.2)	40,602	(0.73)

21. RELATED PARTY TRANSACTIONS

Key management personnel

Compensation of key management (directors and officers) consists of amounts paid and accrued as at the year end.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

	2025	2024
	\$	\$
Short-term benefits	1,584.0	1,502.0
Share-based payments	(104.0)	192.0
	1,480.0	1,694.0

22. COMMITMENTS

The Company has committed to leases of office spaces, mobile and other equipment as outlined in note 12(a). In the ordinary course of business activities, the Company may be subject to, or enter into, commitments that are for terms of less than one year or are low dollar value leases. These amounts are included in the statement of net income and comprehensive income as charges are incurred.

23. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial risk management

The Company's activities expose it to a variety of financial risks: liquidity risk, market risk (including foreign exchange risk, commodity price risk and interest rate risk), and credit risk. The Company's overall financial risk management activities focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to reduce certain risk exposures.

The Company's financial risk management activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement, hedging limits, hedging products, and authorization levels.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to currency risk, primarily with respect to the US dollar, as its products are sold principally in US dollars and its costs of production at its sawmill operations are incurred principally in Canadian dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company does not currently use financial derivative instruments for its foreign exchange risk management program.

As at December 31, 2025, the Company's operations has US dollar denominated accounts receivable totaling US \$0.1 million (2024 – US\$1.6 million) and accounts payable totaling US \$0.2 million (2024 – US\$0.6 million). The US dollar denominated amount drawn on the operating loan is nil (2024 – nil).

(ii) Commodity price risk

The Company is exposed to commodity price risk related to the sale of lumber and residual products and purchase of certain manufacturing inputs which are purchased primarily on the open market. From time to time, the Company enters into futures contracts on the Chicago Mercantile Exchange to reduce its exposure to risks associated with fluctuations in lumber prices. The Company did not hold any lumber futures as at December 31, 2025 and 2024.

(iii) Interest rate risk

Exposure to interest risk arises primarily when financial assets and financial obligations bear variable interest rates.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

The Company may utilize interest rate swaps to reduce its interest rate risk associated with its financial obligations that bear variable interest rates. The Company had no fixed interest rate swaps outstanding at December 31, 2025 and 2024.

(b) Credit risk

Credit risk is the risk of financial loss to the Company in the event a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily related to its trade receivable balances. The Company's credit department is responsible for managing and analyzing the credit risk for each new client before standard payment and delivery terms and conditions are offered. The Company utilizes a combination of credit insurance, letters of credit and self-insurance to manage risks associated with its trade receivables. Management regularly reviews the collectability of trade receivables and makes provisions where the collectability is uncertain. The Company does not have significant credit risk related to its cash and cash equivalent balances as deposits are held with major Canadian and US banks.

Capital management

The Company's objective when managing capital is to maintain a strong balance sheet that ensures adequate capital resources to support operations and to sustain future business development.

The Company monitors capital on the basis of the net debt to total capitalization ratio. Net debt is calculated as current and non-current borrowings (note 12) less cash. Total capital is calculated as the sum of net debt and equity.

The Company's capital structure at year end consisted of the following:

	2025	2024
	\$	\$
Borrowings, current	86,314.0	7,022.4
Borrowings, non-current	1,337.5	70,295.7
Less: cash	(6,927.8)	(7,634.1)
Net debt	80,723.7	69,684.0
Shareholders' equity	49,740.4	85,841.3
Total capitalization	130,464.1	155,525.3
Net debt to capitalization	62%	45%

The Company's capital structure, excluding borrowings by CPLP as described in note 12, at year end consisted of the following:

	2025	2024
	\$	\$
Borrowings, current (excluding non-recourse borrowings)	46,962.8	2,846.3
Borrowings, non-current (excluding non-recourse borrowings)	261.6	25,804.6
Less: cash	(5,212.8)	(3,644.6)
Net debt	42,011.6	25,006.3
Shareholders' equity	49,740.4	85,841.3
Total capitalization	91,752.0	110,847.6
Net debt to capitalization	46%	23%

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

There were no changes in the Company's approach to capital management during the year.

24. 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 derivative instruments are measured at FVTPL.

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 instruments measured at fair value as at December 31, 2025 and 2024.

25. COUNTERVAILING AND ANTI-DUMPING DUTIES

In November 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. In January 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%.

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

In December 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 were 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.

In August 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 were applied as the cash deposit rate on new lumber shipments from the date of publication until publication of the final rates under the fourth administrative review.

The USDOC initiated the fourth administrative review in March 2022. In January 2023, the USDOC issued its preliminary determination for shipments in the year ended December 31, 2021. In August 2023, the USDOC published its final rates for the year ended 2021, which were CV and AD duty rates of 1.79% and 6.26% respectively for a total of 8.05%.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

The USDOC initiated the fifth administrative review in March 2023 covering shipments in the year ended December 31, 2022. In August 2024, the USDOC announced the final duty rate for the year ended 2022, which were CV and AD duty rates of 6.74% and 7.80% respectively for a combined rate of 14.54%.

In September 2024, the USDOC amended the notice of final results for its fifth administrative review of the AD duties to correct Ministerial errors in the calculation of West Fraser Mills Ltd.'s AD rate. This resulted in a 0.14% decrease to the "all others" rate, for a combined rate of 14.40%. This amendment replaces the final AD cash deposit rate previously published in August 2024.

In March and April 2025, the USDOC released preliminary AD and CV rates of 20.07% and 14.38%, respectively, for its sixth administrative review ("AR6"), covering imports from January 1, 2023, to December 31, 2023.

On September 11, 2025, the USDOC announced its final results AD and CV duty rates for AR6. The rates for AD and CV are 20.53% and 14.63%, respectively, for a combined rate of 35.16%.

The final combined rate will be applied to new lumber shipments, and an accounting entry was required to capture the difference between the initial deposit rate and the final combined "all-others" rate on 2023 lumber shipments. Based on the final combined "all-others" rate, we recorded a non-cash additional duty expense exclusive of interest of \$15.3 million.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

Effective dates	Cash Deposit Rate			Final Rate		
	CV	AD	Combined	CV	AD	Combined
Jan 1, 2019 to Dec 31, 2019	14.19%	6.04%	20.23%	6.32%	11.59%	17.91%
Jan 1, 2020 to Nov 30, 2020 ¹	14.19%	6.04%	20.23%	3.83%	4.76%	8.59%
Dec 1, 2020 to Dec 31, 2020	7.42%	1.57%	8.99%	3.83%	4.76%	8.59%
Jan 1, 2021 to Dec 1, 2021	7.42%	1.57%	8.99%	1.79%	6.26%	8.05%
Dec 2, 2021 to Dec 31, 2021	6.31%	11.59%	17.90%	1.79%	6.26%	8.05%
Jan 1, 2022 to Jan 9, 2022	6.31%	11.59%	17.90%	6.74%	7.66%	14.40%
Jan 10, 2022 to Aug 8, 2022	6.32%	11.59%	17.91%	6.74%	7.66%	14.40%
Jan 1, 2023 to Jul 31, 2023	3.83%	4.76%	8.59%	14.63%	20.53%	35.16%
Aug 1, 2023 to Sep 12, 2023	1.79%	6.20%	7.99%	14.63%	20.53%	35.16%
Sep 13, 2023 to Dec 31, 2023	1.79%	6.26%	8.05%	14.63%	20.53%	35.16%
Jan 1, 2024 to Aug 18, 2024	1.79%	6.26%	8.05%	TBA	TBA	TBA
Aug 19, 2024 to Sep 25, 2024	6.74%	7.80%	14.54%	TBA	TBA	TBA
Sep 26, 2024 to Jul 28, 2025	6.74%	7.66%	14.40%	TBA	TBA	TBA
Jul 29, 2025 to Aug 11, 2025	6.74%	20.56%	27.30%	TBA	TBA	TBA
Aug 12, 2025 to Sep 10, 2025	14.63%	20.56%	35.19%	TBA	TBA	TBA
Sep 11, 2025 onwards	14.63%	20.53%	35.16%	TBA	TBA	TBA

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

The Company expensed CV and AD duty deposits totaling \$22.8 million in the twelve months ended December 31, 2025 (2024 – \$4.4 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\$ 46.0 million paid by the Company, net of sales of the right to refunds, since the inception of the current trade dispute remains held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions.

On December 31, 2025, the net duty payable of \$7.2 million (2024 - \$11.0 million recoverable) 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 (now the United States-Mexico-Canada Agreement "USMCA") and through the World Trade Organization, where Canadian litigation has proven successful.

Tariffs

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

From March 4 to March 6, 2025, the US administration, by executive order, applied 25% tariff, amounting to \$57,000, to our Canadian lumber exported to the US. On March 6, 2025, the US administration temporarily suspended these tariffs for Canadian goods compliant with the USMCA. On August 1, 2025, the 25% tariff was increased to 35%, however USMCA-compliant products, including lumber, continued to remain exempt from these additional tariffs.

In March 2025, the US administration issued an executive order instructing the Secretary of Commerce to launch an investigation under Section 232 of the *Trade Expansion Act of 1962* ("Section 232") to assess the national security implications of importing timber, lumber, and related products. The order mandates a report to the President of the United States within 270 days, detailing findings and proposing measures such as tariffs, export controls, quotas, or incentives to boost domestic production to address any identified threats.

Effective October 14, 2025, the US administration imposed an additional 10% tariff pursuant to Section 232 on all softwood lumber imported into the US (the "Section 232 Tariff"). The Section 232 Tariff applies on top of the existing CV and AD duties, bringing the combined duty and tariff rate applicable to Conifex to 45.16%. The duration of the Section 232 Tariff is uncertain. We are actively working with the federal government to advocate for measures that support the forestry sector during this period of uncertainty.

The company paid \$0.3 million pursuant to the Section 232 Tariff in the twelve months ended December 31, 2025 (2024 – nil).

USMCA Chapter 10 Appeals

In August and September 2025, the federal government launched legal challenges under Chapter 10 of the USMCA against the final results of AR6.

Also in September 2025, USMCA Chapter 10 binational panel adjudicating the legal challenge to the first administration review and the second administrative review of the US AD duty order dismissed the case, acquiescing to joint requests made by implicated Canadian and US parties.

Although the AD duty rates for the first administrative review and the second administrative review are finalized, CV rates for both periods are currently under appeal. Once CV duty rates also concluded, all entries for the period will be liquidated by final rate.

26. SUBSEQUENT EVENTS

Term Loan under the Softwood Lumber Guarantee Program

Subsequent to year end, in March 2026, Conifex's wholly-owned subsidiary Conifex Mackenzie Forest Products Inc., entered the BDC Loan, being a \$19.0 million secured term loan with BDC under the Softwood Lumber Guarantee Program. The BDC Loan a maturity date of July 15, 2033, bears interest at BDC's floating base rate minus a variance of 0.60% per year and is secured by Conifex's lumber business assets. The BDC Loan allows for interest-only payments until August 2028. A portion of the BDC Loan was used to repay certain bridge advances under the PenderFund Term Loan. The balance of the BDC Loan is available for working capital and general corporate purposes.

The BDC Loan is intended to support liquidity and ongoing operations amid continued market volatility in the North

American lumber sector. The BDC Loan enhances Conifex's financial flexibility and provides additional runway as we continue to navigate challenging lumber market conditions, including elevated softwood lumber duties and the Section 232 Tariff (as defined below).

In connection with the BDC Loan, Conifex, together with certain of its wholly-owned subsidiaries, BDC, and PenderFund, entered into a priority agreement pursuant to which, among other things, PenderFund agreed that for a period of twelve months it would not, without BDC's prior written consent, cancel or restrict the availability of the

PenderFund Term Loan or accelerate or take any enforcement measures with respect to any amounts owing to

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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

PenderFund, except in the case of certain material defaults.

PenderFund Term Loan

Subsequent to year end, in February 2026, PenderFund advanced the Fourth Advance to support working capital requirements and fund the resumption of two-shift operations at the Mackenzie Mill, which was due in the first quarter of 2026.

Subsequent to year end, in March 2026, the Third Advance and the Fourth Advance were repaid following Conifex's completion of the BDC Loan.