

Condensed consolidated interim financial statements of

Conifex Timber Inc.

June 30, 2011
(Unaudited)

Conifex Timber Inc.

June 30, 2011

Table of contents

Condensed consolidated statement of net loss and comprehensive loss.....	1
Condensed consolidated balance sheet	2
Condensed consolidated statement of changes in equity	3
Condensed consolidated statement of cash flows	4
Notes to unaudited condensed consolidated interim financial statements.....	5-8

Conifex Timber Inc.

Condensed consolidated statement of net loss and comprehensive loss
period ended June 30, 2011 (unaudited)

(thousands of Canadian dollars except earnings per share)	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	\$	\$	\$	\$
Revenue	26,904	12,604	48,082	24,680
Costs and expenses				
Cost of goods sold	22,912	10,586	40,967	19,469
Freight and distribution costs	4,931	2,336	8,506	4,771
Export taxes	93	269	768	737
Selling, general and administrative	3,110	1,251	5,774	2,592
	31,046	14,442	56,015	27,569
Operating Loss	(4,142)	(1,838)	(7,933)	(2,889)
Loss on disposal of assets held for sale	(11)	-	(11)	-
Interest income (expense)	(135)	10	(156)	10
Other income (expense)	988	483	1,686	(32)
Foreign exchange loss	(69)	(40)	(284)	(121)
Accretion of convertible debenture	(257)	(519)	(515)	(519)
Write off of revaluation expense	-	(452)	-	(452)
	516	(518)	720	(1,114)
Loss before tax	(3,626)	(2,356)	(7,213)	(4,003)
Income taxes	-	-	-	-
Net loss and comprehensive loss for the period	(3,626)	(2,356)	(7,213)	(4,003)
Net loss per share, basic and diluted	(0.24)	(0.31)	(0.48)	(0.67)

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

Conifex Timber Inc.

Condensed consolidated balance sheet
as at June 30, 2011 (unaudited)

(thousands of Canadian dollars)	Notes	June 30, 2011	December 31, 2010
		\$	\$
Assets			
<i>Current assets</i>			
Cash and cash equivalents	5	\$7,770	\$26,629
Inventories	6	22,597	15,142
Trade and other receivables		7,087	6,011
Prepaid expenses and deposits		2,742	2,455
Assets held for sale	7	939	1,630
Current assets		41,135	51,867
Intangible assets		8,603	8,607
Property, plant and equipment		71,472	65,692
Deposits		336	338
Total assets		121,546	126,504
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		4,991	6,512
Current portion of reforestation obligations		1,589	1,589
Employee liabilities		3,350	1,822
Current portion of long term debt	8	1,663	1,227
Current liabilities		11,593	11,150
Reforestation obligations		5,236	5,118
Environmental liabilities		1,951	1,977
Employee liabilities		87	111
Convertible notes		6,110	5,578
Long term debt	8	6,418	5,738
Non-current liabilities		19,802	18,522
Total liabilities		31,395	29,672
Equity			
Share capital		118,102	117,899
Conversion option on convertible notes		5,170	5,187
Share-based compensation reserve		1,187	841
Deficit		(34,308)	(27,095)
Total equity		90,151	96,832
Total liabilities and equity		121,546	126,504

Contingencies - Note 10

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

Conifex Timber Inc.

Condensed consolidated statement of changes in equity
period ended June 30, 2011 (unaudited)

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Share-based compensation reserve	Deficit	Total equity
	\$	\$	\$	\$	\$
Balance at December 26, 2009	31,021	4,095	277	(16,031)	19,362
Net loss for the six months ended June 30, 2010	-	-	-	(4,003)	(4,003)
Changes arising from Qualifying Transaction	699	-	37	(287)	449
Capital introduced during the period	85,883	-	-	-	85,883
Exercise of stock options	47	-	-	-	47
Issue of convertible notes	-	1,092	-	-	1,092
Recognition of share-based payments	-	-	143	-	143
Balance at June 30, 2010	117,650	5,187	457	(20,321)	102,973
Net loss for the period July 1, 2010 to December 31, 2010	-	-	-	(6,774)	(6,774)
Issue of common shares for payment in kind of interest on convertible notes	249	-	-	-	249
Recognition of share-based payments	-	-	384	-	384
Balance at December 31, 2010	117,899	5,187	841	(27,095)	96,832
Net loss for the six months ended June 30, 2011	-	-	-	(7,213)	(7,213)
Issue of common shares upon conversion of notes	33	(17)	-	-	16
Issue of common shares upon vesting of share-based payment	170	-	-	-	170
Recognition of share-based payments	-	-	346	-	346
Total of other changes in equity	203	(17)	346	-	532
Balance at June 30, 2011	118,102	5,170	1,187	(34,308)	90,151

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

Conifex Timber Inc.

Condensed consolidated statement of cash flows
period ended June 30, 2011 (unaudited)

(thousands of Canadian dollars)	Notes	For three months ended		Six months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		\$	\$	\$	\$
Cash flows from operating activities					
Net loss		(3,626)	(2,356)	(7,213)	(4,003)
Items not affecting cash:					
Amortization		1,717	496	3,091	1,005
Changes in mark-to-market value of lumber price derivatives		60	(282)	(815)	-
Long-term portion of deferred reforestation obligation		(225)	(34)	118	0
Accretion of convertible notes and related financing cost		274	553	549	553
Revaluation of shares to fair value		-	452	-	452
Recognition of share-based payments		216	72	516	143
		(1,584)	(1,099)	(3,754)	(1,849)
Change in:					
Trade and other receivables		1,963	1,253	(1,589)	238
Prepaid expenses and deposits		(770)	(2,355)	(284)	(2,061)
Inventories	3	5,078	2,408	(7,455)	(3,540)
Accounts payable, accrued liabilities and other payables		(4,201)	(1,557)	(1,520)	1,569
Environmental liabilities		(27)	-	(27)	-
Employee liabilities		712	403	1,503	665
Net cash used in operating activities		1,171	(947)	(13,127)	(4,979)
Cash flows from investing activities					
Additions to intangible assets		(71)	(15)	(116)	(15)
Additions to property, plant and equipment		(4,787)	(2,434)	(8,378)	(4,812)
Acquisition of Mackenzie Assets		-	(34,460)	-	(34,460)
Proceeds on disposal of assets held for sale	7	854	-	1,646	-
Net cash used in investing activities		(4,004)	(36,909)	(6,848)	(39,288)
Financing activities					
Capital introduced - share proceeds		-	85,883	-	85,883
Bank indebtedness on reverse asset acquisition		-	(3)	-	(3)
Proceeds from exercise of stock options		-	47	-	47
Net proceeds from CAF loan	8	1,116	2,269	1,116	2,269
Proceeds from convertible notes		-	-	-	2,009
Net cash from financing activities		1,116	88,196	1,116	90,206
Net increase (decrease) in cash and cash equivalents		(1,716)	50,340	(18,859)	45,939
Cash and cash equivalents, beginning of period		9,487	1,676	26,629	6,077
Cash and cash equivalents, end of period		7,770	52,016	7,770	52,016

Non cash transactions

Proceeds from the sale of assets held for sale in the amount of \$0.2 million had not been received at June 30, 2011 and are excluded from the consolidated statement of cash flows.

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

Conifex Timber Inc.

Notes to unaudited condensed consolidated interim financial statements

June 30, 2011

(Tabular amounts expressed in thousands of Canadian dollars)

1. General information

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

The principal activities of the Company and its subsidiaries are described in Note 4.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 18, 2011.

These condensed consolidated interim financial statements have been reviewed, not audited.

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, 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Seasonality of operations

The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months, primarily December to March, to ensure adequate supply of fibre to its mills during the spring months when logging operations are largely curtailed due to road conditions.

4. Operating segment information

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

- Lumber - The main activities of the lumber segment include timber harvesting, reforestation, forest management, manufacture of logs into finished lumber and residual products at its sawmills and distribution of its finished products.
- Bioenergy - The primary activities of the bioenergy segment will be the development of the bioenergy generation project at Mackenzie, BC as described in Note 10 and the development of other opportunities in the bioenergy sector which are complementary to the Company's existing operating facilities and assets.

Conifex Timber Inc.

Notes to unaudited condensed consolidated interim financial statements June 30, 2011

(Tabular amounts expressed in thousands of Canadian dollars)

4. Operating segment information (continued)

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
3 months ended June 30, 2011				
Sales to external customers	26,904	-	-	26,904
Net loss	(3,120)	(284)	(222)	(3,626)
Amortization	1,717	-	-	1,717
Capital expenditures	4,603	255	-	4,858
3 months ended June 30, 2010				
Sales to external customers	12,604	-	-	12,604
Net loss	(1,492)	(50)	(814)	(2,356)
Amortization	496	-	-	496
Capital expenditures*	27,989	9,985	-	37,974
6 months ended June 30, 2011				
Sales to external customers	48,082	-	-	48,082
Net loss	(5,998)	(531)	(684)	(7,213)
Amortization	3,091	-	-	3,091
Capital expenditures	7,154	1,340	-	8,494
Identifiable assets	101,222	11,615	8709	121,546
6 months ended June 30, 2010				
Sales to external customers	24,680	-	-	24,680
Net loss	(2,379)	(50)	(1,574)	(4,003)
Amortization	1,005	-	-	1,005
Capital expenditures*	30,367	9,985	-	40,352
Identifiable assets*	60,141	10,057	55516	125,714

* Includes purchase of Mackenzie Assets in June 2010.

Revenues by geographic area were as follows:

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	\$	\$	\$	\$
Asia	18,662	4,035	26,145	6,916
Canada	7,218	3,981	13,844	8,050
United States	1,024	4,588	8,093	9,714
	26,904	12,604	48,082	24,680

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

Conifex Timber Inc.

Notes to unaudited condensed consolidated interim financial statements June 30, 2011

(Tabular amounts expressed in thousands of Canadian dollars)

5. Cash and cash equivalents

	June 30, 2011	December 31, 2010
	\$	\$
Cash at bank and in hand	6,110	26,629
Short term deposits	1,660	-
	7,770	26,629

The \$1,660,000 held in short term deposits at June 30, 2011, secures a standby letter of credit issued in the same amount by the Company to BC Hydro pursuant to the terms of the Electricity Purchase Agreement.

6. Inventories

	June 30, 2011	December 31, 2010
	\$	\$
Logs	5,766	5,729
Lumber	12,505	5,911
Supplies	4,326	3,502
	22,597	15,142

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at June 30, 2011 by \$1,205,036 (December 31, 2010: \$658,760; June 30, 2010: \$805,067) and this amount is included in cost of goods sold.

7. Assets held for sale

During the three months ended June 30, 2011, the Company reclassified at its book value of \$372,100 certain property previously classified as "assets held for sale" to "property plant and equipment".

The condensed consolidated interim statement of cash flows reports proceeds on disposal of assets held for sale in the period the proceeds are received. The asset sales were recorded in prior periods.

8. Long-term Debt

In August of 2009, the Company was approved for a secured loan facility of \$8,500,000 under the Community Adjustment Fund ("CAF") loan program sponsored by the Northern Development Initiative Trust. The CAF loan carries a fixed interest rate of 3.75% with twenty quarterly repayments to commence June 1, 2011. The loan is secured by a General Security Agreement (excluding inventory and receivables) and a mortgage against specific properties. Under the agreement, funds are drawn down based upon a fixed percentage of related capital expenditure dollars spent on the capital expenditure program recently completed at the Company's Fort St. James mill. The Company drew down \$1,522,047 of this loan facility during the three months ended June 30, 2011 (December 31, 2010: \$6,964,819).

In June 2011 the Company repaid \$406,135 of the CAF loan.

9. Related party transactions

LJ Resources Co., Ltd.

Hebei Wenfeng Industrial Group ("Hebei") owns convertible notes and affiliates of Hebei own common shares of the Company. Hebei exercises significant influence by virtue of the shareholdings (assuming full conversion of convertible notes) of approximately 20%. Two employees of LJ Resources Co. Ltd. ("LJ") are members of the Board of Conifex. LJ is a wholly-owned subsidiary of Hebei.

Conifex Timber Inc.

Notes to unaudited condensed consolidated interim financial statements

June 30, 2011

(Tabular amounts expressed in thousands of Canadian dollars)

9. Related party transactions (continued)

The Company transacted sales of finished lumber products totaling \$1,875,950 for the three months ended June 30, 2011 (three months ended June 30, 2010: \$ nil) to LJ. The sales to the related party are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party receivables. The outstanding accounts receivable balance from LJ at June 30, 2011 was \$547,704 (December 31, 2010: \$211,259).

10. Contingencies

Softwood Lumber Agreement

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

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. The U.S. filed a Statement of Case with the arbitration panel on August 9, 2011. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

Equipment purchase related to bioenergy generation project at Mackenzie BC

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

In June of 2011, Conifex finalized an Electricity Purchase Agreement ("EPA") and a Load Displacement Agreement ("LDA") with BC Hydro. The transactions contemplated by the EPA and LDA are subject to the EPA being accepted by the British Columbia Utilities Commission as an energy supply contract.

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

11. Events after the reporting period

Letter of intent to undertake financing agreement

In July 2011, the Company executed a letter of intent to undertake a financing agreement with a major Canadian financial institution. The Company will be provided a line of credit for general working capital purposes pending the successful completion of the financing agreement.