

Consolidated financial statements of

Conifex Timber Inc.

December 31, 2015 and 2014



February 19, 2016

Independent Auditor's Report

To the Shareholders of Conifex Timber Inc.

We have audited the accompanying consolidated financial statements of Conifex Timber Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Conifex Timber Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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Conifex Timber Inc.

Consolidated balance sheets

As at December 31, 2015 and 2014

(thousands of Canadian dollars)	Notes	As at December 31, 2015	As at December 31, 2014
		\$	\$
Assets			
<i>Current assets</i>			
Cash		9,902.9	10,059.6
Cash - restricted	12	8,545.7	1,830.4
Trade and other receivables		25,929.4	26,715.6
Prepaid expenses and deposits		11,108.2	8,908.6
Inventories	4	43,231.9	37,171.5
Assets held for sale		10.9	-
Current assets		98,729.0	84,685.7
Goodwill	5	3,310.5	3,310.5
Intangible assets	5	7,843.1	7,916.7
Property, plant and equipment	6	220,553.3	199,733.4
Deposits		1,661.7	984.5
Total assets		332,097.6	296,630.8
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		23,799.5	30,553.4
Current portion of reforestation obligations	7	2,773.9	4,018.7
Employee liabilities	8	1,791.0	1,732.0
Operating loans	11	18,326.9	11,800.5
Current portion of convertible notes	12	11,797.7	-
Current portion of mortgage	12	11,957.8	-
Current portion of long-term debt	12	4,353.3	6,726.6
Current liabilities		74,800.1	54,831.2
Reforestation obligations	7	6,091.4	3,603.4
Environmental liabilities	9	1,529.6	1,705.2
Other long-term liabilities	10	13,089.5	6,969.4
Convertible notes	12	-	11,581.5
Payment-in-kind note	12	30,000.0	-
Long-term debt	12	100,228.3	95,680.4
Non-current liabilities		150,938.8	119,539.9
Total liabilities		225,738.9	174,371.1
Equity			
Share capital	13	157,835.6	156,423.3
Conversion option on convertible notes	12	326.4	351.3
Contributed surplus		11,484.6	11,452.4
Deficit		(63,287.9)	(45,967.3)
Total equity		106,358.7	122,259.7
Total liabilities and equity		332,097.6	296,630.8

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

Conifex Timber Inc.

Consolidated statements of income (loss) and comprehensive income (loss)
Years ended December 31, 2015 and 2014

(thousands of Canadian dollars)	Notes	Year ended December 31,	
		2015	2014
		\$	\$
Revenue	16	353,467.3	352,868.0
Costs and expenses			
Cost of goods sold		293,634.0	274,554.7
Freight and distribution costs		53,615.6	53,903.4
Export taxes		2,213.7	-
Selling, general and administrative	17	15,611.7	15,144.8
		365,075.0	343,602.9
Operating income (loss)		(11,607.7)	9,265.1
Loss on disposal of assets		(2.2)	(123.3)
Interest expense and accretion	18	(8,560.2)	(5,874.4)
Other income		67.2	267.0
Foreign exchange gain		2,782.3	1,100.2
		(5,712.9)	(4,630.5)
Income (loss) before tax		(17,320.6)	4,634.6
Current tax recovery	19	-	(10.5)
Net income (loss) and comprehensive income (loss) for the year		(17,320.6)	4,645.1
Net income (loss) per share, basic and diluted (in dollars)	20	(0.82)	0.22

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, 2015 and 2014

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Contributed surplus	Deficit	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2013	155,493.3	5,124.7	6,321.7	(50,612.4)	116,327.3
Net income for the year ended December 31, 2014	-	-	-	4,645.1	4,645.1
Issue of common shares upon conversion of notes	177.8	(94.0)	-	-	83.8
Issue of common shares upon vesting of share-based payments	752.2	-	(581.1)	-	171.1
Cash settlement of convertible notes	-	(5,030.7)	5,030.7	-	-
Issue of subordinated convertible notes	-	351.3	-	-	351.3
Recognition of share-based payments	-	-	681.1	-	681.1
Balance at December 31, 2014	156,423.3	351.3	11,452.4	(45,967.3)	122,259.7
Net loss for the year ended December 31, 2015	-	-	-	(17,320.6)	(17,320.6)
Issue of common shares (note 26)	675.0	-	-	-	675.0
Issue of common shares upon vesting of share-based payments	737.3	-	(672.5)	-	64.8
Issue costs for subordinated convertible notes	-	(24.9)	-	-	(24.9)
Recognition of share-based payments	-	-	704.7	-	704.7
Balance at December 31, 2015	157,835.6	326.4	11,484.6	(63,287.9)	106,358.7

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

Conifex Timber Inc.

Consolidated statements of cash flows
Years ended December 31, 2015 and 2014

(thousands of Canadian dollars)	Year Ended December 31,	
	2015	2014
	\$	\$
Cash flows from operating activities		
Net income (loss)	(17,320.6)	4,645.1
Items not affecting cash:		
Depreciation and amortization	16,493.7	10,807.0
Change in mark-to-market value of lumber price derivatives	(77.3)	124.3
Change in reforestation obligations	1,243.2	383.5
Interest expense and accretion	8,560.2	5,874.4
Share-based compensation	769.6	783.1
LDA accretion	(464.8)	-
Other	2.2	123.3
	9,206.2	22,740.7
Change in:		
Trade and other receivables	863.5	(4,547.0)
Prepaid expenses and deposits	(2,557.3)	(2,709.2)
Inventories	(6,060.4)	6,874.9
Trade payables, accrued liabilities and other payables	(2,108.6)	(2,000.1)
Employee liabilities	(175.6)	(474.6)
Environmental liabilities	59.0	17.3
Net cash provided from (used in) operating activities	(773.2)	19,902.0
Cash flows from investing activities		
Additions to property, plant and equipment	(24,577.9)	(72,675.7)
Acquisition of El Dorado Sawmill Assets (note 26)	(16,595.7)	-
Additions to long-term investments	(12.2)	(569.7)
Acquisition of subsidiaries	-	(4,807.8)
Insurance proceeds received	11,546.0	-
Proceeds on disposal of assets	17.8	279.4
Net cash used in investing activities	(29,622.0)	(77,773.8)
Cash flows from financing activities		
Incentive funding received	6,625.0	-
Financing fees	(358.1)	(276.5)
Proceeds of operating loans	5,026.4	4,983.6
Proceeds of revolving loan	1,500.0	-
Proceeds of payment-in-kind note	30,000.0	-
Proceeds of subordinated convertible notes	-	12,000.0
Proceeds from construction loan	9,562.5	49,677.3
Repayment of convertible notes	-	(9,707.0)
Repayment of senior secured notes	(4,000.0)	-
Repayment of long-term debt	(2,256.2)	(1,825.6)
Repayment of term loan	(2,080.1)	-
Interest expense paid	(7,065.7)	(3,699.2)
Net cash provided from financing activities	36,953.8	51,152.6
Net increase (decrease) in cash	6,558.6	(6,719.2)
Cash, beginning of year	11,890.0	18,609.2
Cash, end of year	18,448.6	11,890.0

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

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2015 and 2014

(Tabular amounts expressed in thousands except per share amounts)

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

1. NATURE OF OPERATIONS

The primary business of Conifex in its lumber segment includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing. Conifex's lumber products are sold in the United States, Chinese, Canadian and Japanese markets. The primary activity in its bioenergy segment is the production of electricity for external sale under an Electricity Purchase Agreement and internal supply under a Load Displacement Agreement at the power generation plant at Mackenzie, BC.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The principal 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 ("IASB").

The consolidated financial statements were approved by the Board of Directors on February 19, 2016.

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.

2.4 Business combinations

The Company applies the acquisition method to account for business combinations. Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. Acquisition-related costs are expensed as incurred.

Conifex Timber Inc.

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2.5 Functional and presentation currency

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

2.6 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.

2.7 Cash

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

2.8 Financial instruments

(a) Non-derivative financial instruments

The Company classifies non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market as loans and receivables. They 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. Loans and receivables are recorded at amortized cost using the effective interest method, less any impairment.

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 utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and interest rate variability. Lumber derivatives 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 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.

2.9 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.

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2.10 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. Cash generating units are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU exceeds its fair value, the fair value of the CGU's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

(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 3 years.

2.11 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. Buildings and fixtures and computer hardware are depreciated on a straight-line basis over their estimated useful lives. Machinery, mobile and other production equipment are depreciated using the units of production basis. This method amortizes the cost of equipment over the estimated units that will be produced during its estimated useful life. 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 non-manufacturing property, plant and equipment are reflected with the following rates:

Buildings and fixtures	2% - 5%
Machinery and equipment	5% - 33%
Mobile equipment	20% - 50%
Computer hardware	10% - 33%

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 its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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(Tabular amounts expressed in thousands except per share amounts)

2.12 Government grants

Grants from the government 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.

2.13 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. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Asset impairment is considered at the cash generating unit level. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Employee benefits

A defined contribution plan is a post-employment benefit plan under which an entity 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.

2.15 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.

2.16 Share-based compensation

The Company operates a long-term performance incentive plan and a stock option plan which provides for options, restricted shares, performance shares and deferred shares 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.

2.17 Compound financial instruments

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder.

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(Tabular amounts expressed in thousands except per share amounts)

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

The liability component is classified as a current liability if the maturity date is within 12 months of the end of the reporting period. If not, it is classified as a non-current liability.

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of returns and value added taxes. The Company recognizes revenue when the amount of revenue can be reliably measured, the significant risks and rewards of ownership are passed to the customer, and collectability is reasonably assured.

2.19 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.

2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.21 Income tax

The 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.

2.22 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 steering committee that makes strategic decisions.

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(Tabular amounts expressed in thousands except per share amounts)

2.23 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 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, share-based compensation, impairment 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.

2.24 Accounting standards issued and not yet adopted

(a) IFRS 9, Financial Instruments

In July 2014, the IASB issued the final publication of IFRS 9, *Financial Instruments*, superseding International Accounting Standard (“IAS”) 39, *Financial Instruments*. IFRS 9 includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management and contains a new impairment model which could result in earlier recognition of losses. IFRS 9 is effective for the year ending December 31, 2018 with early adoption permitted. The Company has not yet determined the impact of this standard on its consolidated financial statements.

(b) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces the existing revenue recognition guidance with a new framework to determine the timing of revenue recognition and the measurement of revenue. IFRS 15 also requires more comprehensive disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. IFRS 15 will be effective for the year ending December 31, 2018 with early adoption permitted. The Company has not yet determined the impact of this standard on its consolidated financial statements.

(c) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year ending December 31, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company has not yet determined the impact of this standard on its consolidated financial statements.

Conifex Timber Inc.

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(Tabular amounts expressed in thousands except per share amounts)

3. SEASONALITY OF OPERATIONS

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

The operating results of the bioenergy segment 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

	2015	2014
	\$	\$
Logs	15,408.7	11,885.7
Lumber	22,510.8	20,234.3
Supplies	5,208.0	4,668.3
By-products	104.4	383.2
	43,231.9	37,171.5

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at December 31, 2015 by \$652,638 (2014 – \$280,248). Write-downs are included in cost of goods sold when incurred.

5. GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

	2015	2014
	\$	\$
Cost and carrying amount	3,310.5	3,310.5

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(Tabular amounts expressed in thousands except per share amounts)

(b) Intangible assets

	Forestry licences	Software licences	Total
	\$	\$	\$
<i>Cost</i>			
At December 31, 2013 and 2014	8,550.0	372.9	8,922.9
Net additions	-	93.5	93.5
At December 31, 2015	8,550.0	466.4	9,016.4
<i>Accumulated amortization</i>			
At December 31, 2013	(490.8)	(362.7)	(853.5)
Amortization charge for the year	(142.5)	(10.2)	(152.7)
At December 31, 2014	(633.3)	(372.9)	(1,006.2)
Amortization charge for the year	(142.5)	(24.6)	(167.1)
At December 31, 2015	(775.8)	(397.5)	(1,173.3)
<i>Carrying amount</i>			
At December 31, 2014	7,916.7	-	7,916.7
At December 31, 2015	7,774.2	68.9	7,843.1

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Capital work in progress	Power assets	Power capital work in progress	Total
	\$	\$	\$	\$	\$	\$
<i>Cost</i>						
At December 31, 2013	2,854.0	89,301.7	1,530.1	9,874.8	58,692.5	162,253.1
Net additions	-	6,799.9	8,526.5	-	57,914.3	73,240.7
Disposals	-	(1,383.4)	-	-	-	(1,383.4)
At December 31, 2014	2,854.0	94,718.2	10,056.6	9,874.8	116,606.8	234,110.4
Net additions *	-	-	6,501.0	-	1,977.1	8,478.1
Acquisition of El Dorado Sawmill Assets (note 26)	2,541.0	26,147.4	-	-	-	28,688.4
Transfers	-	14,614.7	(14,614.7)	117,129.9	(117,129.9)	-
Disposals	-	(20.0)	-	-	-	(20.0)
At December 31, 2015	5,395.0	135,460.3	1,942.9	127,004.7	1,454.0	271,256.9
<i>Accumulated depreciation</i>						
At December 31, 2013	-	(24,703.6)	-	-	-	(24,703.6)
Depreciation charge for the year	-	(10,654.2)	-	-	-	(10,654.2)
Disposals	-	980.8	-	-	-	980.8
At December 31, 2014	-	(34,377.0)	-	-	-	(34,377.0)
Depreciation charge for the year	-	(12,062.6)	-	(4,264.0)	-	(16,326.6)
At December 31, 2015	-	(46,439.6)	-	(4,264.0)	-	(50,703.6)
<i>Carrying amount</i>						
At December 31, 2014	2,854.0	60,341.2	10,056.6	9,874.8	116,606.8	199,733.4
At December 31, 2015	5,395.0	89,020.7	1,942.9	122,740.7	1,454.0	220,553.3

* Insurance proceeds received in the year of \$11,546,000 have been netted against the Power capital work in progress additions.

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7. REFORESTATION OBLIGATIONS

	2015	2014
	\$	\$
Reforestation obligations		
Current	2,773.9	4,018.7
Non-current	6,091.4	3,603.4
	8,865.3	7,622.1

	2015	2014
	\$	\$
Balance at beginning of year	7,622.1	7,238.6
Additional provisions recognized	5,738.7	4,903.0
Reductions arising from payment	(4,171.9)	(4,432.1)
Change arising from re-measurement or settlement without cost	(323.6)	(87.4)
	8,865.3	7,622.1

8. EMPLOYEE LIABILITIES

	2015	2014
	\$	\$
Current		
Payroll	1,791.0	1,470.8
Deferred union payroll liability	-	261.2
	1,791.0	1,732.0

The deferred union payroll liability relates to deferred payroll costs for unionized employees. Under the terms of the agreement, a portion of employee wages was deferred, as long as lumber selling prices were below a specified value. Deferred employee wages were paid out when lumber selling prices increased above a specified value or upon employee retirement.

9. ENVIRONMENTAL LIABILITIES

	2015	2014
	\$	\$
Balance at beginning of year	1,705.2	1,687.8
Reductions arising from payment	(219.9)	(108.1)
Change arising from re-measurement or settlement without cost	44.3	125.5
	1,529.6	1,705.2

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10. OTHER LONG-TERM LIABILITIES

	2015	2014
	\$	\$
Other liabilities	304.3	344.4
Deferred revenue (a)	12,785.2	6,625.0
	13,089.5	6,969.4

(a) Deferred revenue

Deferred revenue includes the drawdown of the incentive funds, available under the Load Displacement Agreement with BC Hydro, of \$12,785,212 (2014 – \$6,625,000). The incentive funding is recognized in profit on a systematic basis over the 20 year term of the agreement from April 30, 2015.

11. OPERATING LOANS

(a) \$25 Million senior secured revolving asset based credit facility

The Company entered into a three-year \$25 million senior secured revolving asset based credit facility (the "Facility") with a Canadian chartered bank in April 2013. Under the terms of the Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, net of specific reserves. Borrowings can be in Canadian or US dollars. Interest rates on Canadian dollar borrowings are based on either banker's acceptances or the Canadian chartered bank prime rate, at the Company's option, plus an applicable margin.

The portion of the \$25 million commitment that is not drawn is subject to a standby fee. The Facility is primarily secured by a first priority security interest on certain existing and after acquired lumber assets. The Company is subject to customary covenants, including a fixed charge coverage ratio if the amount available for borrowing falls below a certain threshold. Conifex uses the Facility primarily for working capital in its lumber segment and for other permitted general corporate purposes.

The maturity date and maximum credit amount of the Facility were amended in January 2016 (note 28).

As of December 31, 2015, the Company has drawn \$11,050,000 of the Facility (2014 – \$6,500,000).

(b) Demand revolving loan and demand revolving line

Lignum Forest Products LLP ("Lignum"), a wholly-owned subsidiary of the Company, has a \$7.5 million demand revolving loan and a \$1.4 million demand revolving line for the purchase of forward exchange contracts with a Canadian chartered bank (collectively, the "Revolving Loan"). The Revolving Loan bears interest at Canadian prime rate plus an applicable margin or US base rate plus an applicable margin.

The Revolving Loan is secured by a general security agreement and a general assignment of Lignum's assets. Lignum is subject to customary covenants, including maintaining a debt to equity ratio, current ratio and tangible net worth above certain thresholds.

Lignum has drawn \$5,776,868 of the Revolving Loan as at December 31, 2015 (2014 – \$5,300,483).

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(c) \$1.75 Million revolving operating facility

Conifex Power Limited Partnership ("CP Partnership"), a wholly-owned subsidiary of the Company, has a \$1.75 million revolving operating facility in connection with the project financing secured in November 2013 (note 12(e)).

As of December 31, 2015, CP Partnership has drawn \$1,500,000 of the revolving operating facility (2014 – nil).

12. BORROWINGS

	2015	2014
	\$	\$
Non-current		
Long-term debt (a)	45.7	304.3
Subordinated convertible notes (b)	-	11,581.5
Senior secured notes (c)	24,357.7	27,409.2
Payment-in-kind note (d)	30,000.0	-
Term loan (e)	75,824.9	67,966.9
	130,228.3	107,261.9
Current		
Subordinated convertible notes (b)	11,797.7	-
Mortgage (f)	11,957.8	-
Current portion of long-term debt and term loan	4,353.3	6,726.6
	28,108.8	6,726.6

The aggregate amount of contractual cash outflows for borrowings, which reflects payments in full before accretion, are as follows:

	2015
	\$
2016	28,311.1
2017	29,834.6
2018	3,855.8
2019	68,180.3
2020	30,000.0
Thereafter	-
	160,181.8

(a) Long-term debt

Long-term debt includes a secured loan facility provided under the Community Adjustment Fund ("CAF") loan program sponsored by the Northern Development Initiative Trust. The CAF loan carries a fixed interest rate of 3.75% and is repayable by 20 quarterly repayments of \$485,700 commencing June 2011. The loan is secured by a general security agreement (excluding inventory and receivables) and a mortgage against certain properties. The Company repaid \$1,895,051 of the CAF loan during the year ended December 31, 2015 (2014 – \$1,825,621). The CAF loan facility is fully drawn with principal outstanding of \$83,296 at December 31, 2015 (2014 – \$1,978,347).

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Long-term debt also includes three capital leases for mobile equipment. The capital leases expire in 2016 and 2017 and the principal outstanding at December 31, 2015 was \$220,825 (2014 – \$581,923).

(b) Subordinated convertible notes

On December 15, 2014, the Company issued \$12,000,000 in unsecured subordinated convertible notes (the “Convertible Notes”). The Convertible Notes mature on December 15, 2016 and bear interest at a rate of 7% per annum. The Convertible Notes are convertible at the option of the holder into common shares at a conversion price of \$6.22 per share.

The values of the liability component and the equity conversion component were determined at issuance of the notes. The fair value of the liability component, included in current liabilities, was calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the value of the equity conversion option, is included in equity. The note discount equal to the value of the option and issuance costs is accreted over the term of the note.

For the year ended December 31, 2015, the Company recorded expenses that comprised accretion of \$167,105, amortization of issuance costs of \$49,128 and interest expense of \$840,000 (2014 – \$2,920, \$739 and \$36,822 respectively).

The subordinated convertible notes recognized in the consolidated balance sheet are calculated as follows:

	Convertible notes	Issuance costs	Equity component	Liability component
	\$	\$	\$	\$
Issuance of subordinated convertible notes	12,000.0	70.8	351.3	11,577.9
Accretion of subordinated convertible notes	-	-	-	2.9
Accretion of issuance costs	-	(0.7)	-	0.7
At December 31, 2014	12,000.0	70.1	351.3	11,581.5
Issuance costs	-	24.9	(24.9)	-
Accretion of subordinated convertible notes	-	-	-	167.1
Accretion of issuance costs	-	(49.1)	-	49.1
At December 31, 2015	12,000.0	45.9	326.4	11,797.7

(c) \$30 Million senior secured notes

In September 2013, the Company issued promissory notes (the “Notes”) in the aggregate principal amount of \$30 million. The Notes mature on September 18, 2017 and bear interest at a rate of 8% per annum. The Company may redeem the Notes, in whole or in part, upon 15 days’ notice and payment of interest accrued on the amount redeemed to the date of redemption, but otherwise at par.

On August 4, 2015, the Company redeemed \$4,000,000 of the issued Notes.

As additional consideration for the loan, the Company issued share purchase warrants entitling the holder to purchase up to an aggregate of 1,060,000 common shares of the unissued capital stock of the Company at a price of \$8.25 per share until September 18, 2017.

The fair market value of each share purchase warrant is calculated using the Black-Scholes option pricing model at \$3.41. The related issuance costs will be amortized over the term of the Notes. For the year ended December 31, 2015, the Company recorded expenses that comprised accretion of \$902,873, amortization of issuance costs of \$45,534 and interest expense of \$2,268,493 (2014 – \$902,873, \$45,292 and \$2,423,877 respectively).

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The Notes are primarily secured by a first priority security interest in certain long-term lumber segment assets.

The Notes recognized in the consolidated balance sheet are calculated as follows:

	Promissory notes	Issuance costs	Warrants	Accretion	Total
	\$	\$	\$	\$	\$
At December 31, 2013	30,000.0	(165.5)	(3,611.5)	243.1	26,466.1
Issuance costs	-	(5.0)	-	-	(5.0)
Amortization of issuance costs and accretion	-	45.3	-	902.8	948.1
At December 31, 2014	30,000.0	(125.2)	(3,611.5)	1,145.9	27,409.2
Redemption of promissory notes	(4,000.0)	-	-	-	(4,000.0)
Amortization of issuance costs and accretion	-	45.6	-	902.9	948.5
At December 31, 2015	26,000.0	(79.6)	(3,611.5)	2,048.8	24,357.7

(d) \$30 Million payment-in-kind note

In August 2015, the Company's wholly-owned subsidiary, Conifex Inc., entered into an investment agreement, pursuant to which it issued a payment-in-kind note (the "PIK Note") in the principal amount of \$30 million. The PIK Note has a term of five years and matures on August 4, 2020. The PIK Note is non-interest bearing from the issue date until August 3, 2017 and will bear interest at a rate of 5% per annum thereafter. Conifex Inc. may redeem the PIK Note upon 120 days' notice and payment of accrued interest. The PIK Note cannot be redeemed before December 22, 2016 and partial redemptions are not allowed. The PIK Note is primarily secured by a first priority security interest on a forest licence with 200,000 m³ of annual cut (the "Forest Licence").

Conifex Inc. can elect after 17 months to pay the principal amount of the PIK Note by the transfer of all of the issued common shares of its subsidiary which holds the Forest Licence. Additionally, the holder of the PIK Note has the option, exercisable after 12 months, to convert the PIK Note into an ownership interest in the Forest Licence.

The holder of the PIK Note exercised its payment-in-kind option in February 2016 (note 28).

(e) Term loan

CP Partnership secured project financing (the "Project Financing") with a syndicate of four institutional lenders led by a Canadian chartered bank in November 2013. The Project Financing is for an aggregate up to \$102.7 million and includes a development and construction loan facility of up to \$82 million (the "Construction Facility"). The Construction Facility comprises floating rate and fixed rate tranches, both of which matured on July 31, 2015 (amended from June 30, 2015). On July 30, 2015, CP Partnership converted the Construction Facility into an amortized term loan (the "Term Loan") that matures on December 1, 2019. The balance of the Project Financing is in the form of a \$18.95 million letter of credit facility and a \$1.75 million revolving operating facility. The letter of credit facility is utilized primarily to secure certain obligations of CP Partnership under its Load Displacement Agreement and a debt service reserve fund.

Interest rates on the floating rate tranche borrowings are based on either banker's acceptances or the Canadian chartered bank prime rate, at CP Partnership's option, plus an applicable margin. The fixed rate tranche bears an interest rate largely consistent with the floating rate tranche.

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The Project Financing is primarily secured by a first priority security interest on existing and after acquired assets of CP Partnership.

As at December 31, 2015, CP Partnership had fully drawn \$82 million (2014 – \$72,437,481) of the Construction Facility and issued letters of credit totaling \$18,750,000 (2014 – \$6,825,000) under the letter of credit facility provided under the Project Financing. CP Partnership repaid \$1,799,000 of the floating rate tranche and \$281,111 of the fixed rate tranche during the year (2014 – nil).

Interest of \$1,673,004 (2014 – \$3,433,565) has been capitalized to the power generation plant. For the year ended December 31, 2015, CP Partnership has recorded interest expense of \$3,510,166 and financing expense of \$13,862 (2014 – nil).

As at December 31, 2015, CP Partnership held \$8,545,653 of cash in restricted accounts (2014 – \$1,830,369). Funds from restricted accounts are distributed in accordance with the terms of the Project Financing.

(f) Mortgage

On August 6, 2015, the Company acquired idled sawmill assets located in El Dorado, Arkansas, United States (note 26). Consideration paid for the acquired assets included a US\$8.64 million vendor mortgage (the "Mortgage"). The Mortgage bears interest at a rate of 6% per annum, payable quarterly beginning on November 1, 2015, and matures on the earlier of December 1, 2016 or the day before any remodel, construction or addition of buildings and/or equipment of the El Dorado Sawmill Assets. The Mortgage is secured against the El Dorado Sawmill Assets.

For the year ended December 31, 2015, interest of \$277,764 has been capitalized to the El Dorado Sawmill Assets.

13. SHARE CAPITAL

Authorized

Unlimited number of common voting shares without par value.

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount \$
Balance at December 31, 2013	20,811	155,493.3
Shares vested under share-based compensation plan (note 14)	89	752.2
Shares issued on conversion of convertible notes	22	177.8
Balance at December 31, 2014	20,922	156,423.3
Shares vested under share-based compensation plan (note 14)	89	737.3
Shares issued (note 26)	100	675.0
Balance at December 31, 2015	21,111	157,835.6

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14. SHARE-BASED COMPENSATION

14.1 Stock option plan

The Company has a stock option plan primarily applicable to directors and officers. The total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, each option granted shall be for a term not exceeding 10 years from the grant date and the vesting period is determined based on the discretion of the Board of Directors. The option exercise price is set at the date of the grant and cannot be less than the closing trading price of the Company's common shares on the day immediately preceding the day of the grant of the option.

There were 100,000 options outstanding at December 31, 2015 with an exercise price of \$8.25 per share. The options were granted on August 20, 2010 and expire on August 20, 2020 and have fully vested. The options are exercisable only to the extent that they have vested.

The fair value of the options granted is estimated at the time of the grant using the Black-Scholes option pricing model. Based on a share price of \$6.50 on the day of the grant, expected life of 10 years, risk-free interest rate of 3.05% and annualized volatility of 33%, the fair value of the options granted on August 20, 2010 is estimated at \$265,000 or \$2.65 per option. Expense related to the stock option plan of \$1,398 was recognized in the year ended December 31, 2015 (2014 – \$17,670).

14.2 Long-term performance incentive plan

The Company operates a long-term performance incentive plan which provides for long-term incentive plan units, restricted share units, performance share units and deferred share units to be awarded to directors, executives and salaried employees. 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 subject to a minimum price.

(a) Long-term incentive plan units and restricted share units

The following table illustrates the number and weighted average fair value ("WAFV") of, and movements in, long-term incentive plan awards and restricted share units granted during the year:

	2015	2015	2014	2014
	Number	WAFV	Number	WAFV
		\$		\$
Outstanding at January 1	445,319	8.28	362,532	8.48
Granted during the year	120,000	6.51	223,500	8.27
Forfeited during the year	(58,920)	8.31	(52,273)	8.60
Vested during the year	(88,562)	8.39	(88,440)	8.87
Outstanding at December 31	417,837	7.75	445,319	8.28

The awards vest in three, four and five year tranches. 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 long-term incentive plan awards and restricted share units of \$761,342 was recognized in the year ended December 31, 2015 (2014 – \$851,868). The compensation expense is allocated between cost of goods sold and selling, general and administrative expense.

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(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 was no expense recognized in the year ended December 31, 2015 (2014 – \$151,308 recovery). Payments in cash related to vested PSUs for the year ended December 31, 2015 were nil (2014 – \$180,864).

(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. Expense related to the grant of DSUs of \$6,875 was recognized in the year ended December 31, 2015 (2014 – \$82,500).

15. WARRANTS

	Number of warrants	Amount \$
Balance at December 31, 2013	2,210,200	5,002,672.6
Warrants expired and cancelled during 2014	(989,783)	(1,071,320.0)
Balance at December 31, 2014 and 2015	1,220,417	3,931,352.6

(a) Warrants issued in connection with \$5 million senior secured promissory notes

In connection with the February 2013 issuance of senior secured promissory notes by CP Partnership, the Company issued share purchase warrants entitling the holders of the promissory notes to purchase up to an aggregate of 160,417 common shares of the unissued capital stock of the Company at a price of \$9.50 per share until February 21, 2016.

The fair market value of the warrants was capitalized to the power generation plant in prior years.

(b) Warrants issued in connection with \$30 million senior secured notes

In connection with the September 2013 issuance of senior secured notes (note 12), the Company issued share purchase warrants entitling the holders of the promissory notes to purchase up to an aggregate of 1,060,000 common shares of the unissued capital stock of the Company at a price of \$8.25 per share until September 18, 2017.

The fair market value of the warrants is recorded against the carrying value of the borrowing and amortized over the term of the promissory notes. During the year ended December 31, 2015, the Company recorded accretion expense of \$902,873 (2014 – \$902,873) related to the common share purchase warrants.

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16. REVENUE

	2015	2014
	\$	\$
Lumber	302,884.7	311,668.8
Lumber by-products	23,994.5	27,321.6
Bioenergy	16,255.9	-
Transportation services	10,332.2	13,877.6
	353,467.3	352,868.0

17. SELLING, GENERAL AND ADMINISTRATIVE

	2015	2014
	\$	\$
Selling and logistics services	7,776.6	7,126.1
Salaries and benefits	3,551.3	3,688.5
Other administrative expenses	2,006.4	1,756.6
Legal, professional and organizational	1,899.5	2,185.3
Depreciation and amortization	377.9	388.3
	15,611.7	15,144.8

18. INTEREST EXPENSE AND ACCRETION

	2015	2014
	\$	\$
Interest expense	7,208.4	3,856.1
Accretion	1,070.0	1,801.1
Financing expense	281.8	217.2
	8,560.2	5,874.4

Interest and financing of \$1,673,004 (2014 – \$3,433,565) has been capitalized to the power generation plant and interest of \$277,764 (2014 – nil) has been capitalized to the El Dorado Sawmill Assets (note 26).

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19. INCOME TAX

19.1 Current income taxes

	2015	2014
	\$	\$
<i>Recognized in income statement</i>		
Tax recovery comprises		
Current tax recovery	-	(10.5)
<i>Reconciliation of effective tax rate</i>		
Income (loss) before tax	(17,320.6)	4,634.6
Income tax expense (recovery) at corporation rate of 26.00% (2014 - 26.00%)	(4,503.4)	1,205.0
Expenses not deductible for tax purposes	933.9	734.9
Effect of unused tax losses and tax offsets not recognized as deferred assets	8,137.5	(1,153.0)
Effect of items flowing through equity	-	(152.7)
Recognition of the benefit of prior years' tax losses	(4,585.8)	(840.8)
Other	17.8	196.1
Total income tax recovery	-	(10.5)

During the year, a tax election was filed to increase the tax basis of the Forest Licence, resulting in a taxable gain which was offset by the utilization of loss carryforward amounts.

19.2 Unrecognized deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes.

The source of unrecognized deferred income taxes is as follows:

	2014	Change		2015
	Opening balance	Related to earnings	Related to equity	Closing balance
	\$	\$	\$	\$
Deferred tax assets related to non-capital losses	7,904.7	368.1	-	8,272.8
Deferred tax assets related to temporary differences in tax and book basis	2,165.1	3,183.6	-	5,348.7
Net deferred tax assets	10,069.8	3,551.7	-	13,621.5

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	2013	Change		2014
	Opening balance	Related to earnings	Related to equity	Closing balance
	\$	\$	\$	\$
Deferred tax assets related to non-capital losses	8,067.9	(163.2)	-	7,904.7
Deferred tax assets related to temporary differences in tax and book basis	2,565.6	(247.8)	(152.7)	2,165.1
Net deferred tax assets	10,633.5	(411.0)	(152.7)	10,069.8

No deferred tax assets have been recognized in these consolidated financial statements due to the uncertainty as to realization.

19.3 Non-capital loss carry forwards

As at December 31, 2015, the Company has non-capital losses from the following years:

Year of loss	Non-capital loss amount
	\$
2006	43.3
2007	-
2008	317.2
2009	597.8
2010	3,053.8
2011	2,324.1
2012	1,776.1
2013	4,380.3
2014	8,920.1
2015	10,709.2
	32,121.9

The non-capital losses can be carried forward for 20 years from the year the loss was incurred.

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20. NET INCOME (LOSS) PER SHARE

	Year ended December 31, 2015			Year ended December 31, 2014		
	Net loss	Weighted average number of shares	Per share	Net income	Weighted average number of shares	Per share
	\$		\$	\$		\$
Basic income (loss) per share	(17,320.6)	21,027	(0.82)	4,645.1	20,883	0.22
Convertible notes	-	1,929 *	-	-	1,090 *	-
Diluted income (loss) per share	(17,320.6)	21,027	(0.82)	4,645.1	20,883	0.22

* The conversion of convertible notes is anti-dilutive and is therefore excluded from the weighted average number of common shares for the purposes of calculating diluted income (loss) per share.

21. RELATED PARTY TRANSACTIONS

Key management personnel

Compensation of key management (directors and officers)

	2015	2014
	\$	\$
Short-term benefits	1,520.1	2,176.4
Share-based payments	130.1	228.4
	1,650.2	2,404.8

22. SEGMENT AND GEOGRAPHICAL INFORMATION

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

- Lumber - The main activities of the lumber segment include timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing. The Company markets and distributes its lumber products through its wholly-owned subsidiaries, Conifex Fibre Marketing Inc. ("CFMI"), Lignum, and Navcor Transportation Services Inc. ("Navcor"). CFMI, Lignum, and Navcor generate additional revenue from third party transactions.
- Bioenergy - The primary activities of the bioenergy segment are the generation of electrical power and the development of other opportunities in bioenergy and bioproducts which are complementary to the Company's harvesting and manufacturing operations. The Mackenzie power generation plant commenced commercial operations on May 1, 2015.

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Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
Year ended December 31, 2015				
Sales to external customers	337,211.4	16,255.9	-	353,467.3
Operating income (loss)	(8,722.3)	2,062.2	(4,947.6)	(11,607.7)
Loss on disposal of assets	(2.2)	-	-	(2.2)
Interest expense and accretion	-	(3,538.4)	(5,021.8)	(8,560.2)
Other income	67.2	-	-	67.2
Foreign exchange gain	-	-	2,782.3	2,782.3
Net loss	(8,657.3)	(1,476.2)	(7,187.1)	(17,320.6)
Depreciation and amortization	12,166.1	4,264.0	63.6	16,493.7
Capital expenditures	5,317.2	13,523.1	1,277.3	20,117.6
Acquisition of El Dorado	28,688.4	-	-	28,688.4
Identifiable assets	180,568.7	129,529.7	21,999.2	332,097.6
Year ended December 31, 2014				
Sales to external customers	352,868.0	-	-	352,868.0
Operating income (loss)	14,524.3	2.3	(5,261.5)	9,265.1
Gain (loss) on disposal of assets	(134.6)	-	11.3	(123.3)
Interest expense and accretion	-	-	(5,874.4)	(5,874.4)
Other income	148.5	-	118.5	267.0
Foreign exchange gain (loss)	1,416.4	-	(316.2)	1,100.2
Income tax recovery	-	-	10.5	10.5
Net income (loss)	15,954.6	2.3	(11,311.8)	4,645.1
Depreciation and amortization	10,741.6	-	65.4	10,807.0
Capital expenditures	15,326.4	57,914.3	-	73,240.7
Identifiable assets	159,101.7	130,719.7	6,809.4	296,630.8

Revenues by geographic area were as follows:

	2015	2014
	\$	\$
United States	173,878.4	163,827.9
Canada	89,810.7	76,579.9
China	50,169.3	81,507.2
Japan	30,007.4	27,752.5
Other	9,601.5	3,200.5
	353,467.3	352,868.0

All of the Company's harvesting, manufacturing and power generation operations are located in the interior region of British Columbia.

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23. COMMITMENTS

Lease payments

The amount of operating lease payments charged to the statement of net income (loss) and comprehensive income (loss) during the year comprised:

	2015	2014
	\$	\$
Equipment	474.9	700.9
Office and office equipment	831.9	1,008.0
Vehicles	166.0	107.6
	1,472.8	1,816.5

Lease commitments

The future aggregate minimum lease payments under non-cancellable leases are as follows:

	2015	2014
	\$	\$
Less than 1 year	1,587.0	1,815.6
Later than 1 year and not later than 5 years	3,131.6	3,503.2
Later than 5 years	2,029.9	2,576.8
	6,748.5	7,895.6

24. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, commodity price risk and interest rate risk), credit risk and liquidity 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 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.

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As at December 31, 2015, the Company's US dollar denominated accounts receivable totaled US\$10,044,503 (2014 – US\$13,304,748) and accounts payable totaled US\$3,055,043 (2014 – US\$1,493,268). The Company estimates that an increase or decrease of one cent in the value of the Canadian dollar per US\$1.00 during 2015 would have decreased or increased, respectively, annual operating earnings by approximately \$1,065,000.

(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. At December 31, 2015, the fair value of non-covered outstanding commodity financial instruments was \$872,310 (2014 – \$413,284). The fair value of these instruments was determined based on market rates for instruments with similar characteristics. An increase (decrease) in the futures market price of lumber of US\$10 per thousand board feet would result in a pre-tax gain (loss) of approximately US\$40,700 in relation to the lumber futures held at year end.

(iii) Interest rate risk

Exposure to interest risk arises primarily when financial assets and financial obligations bear variable interest rates. At December 31, 2015, the Company's financial obligations bearing variable interest rates (excluding borrowings under revolving operating loans) totaled \$57,201,000 (2014 – \$51,500,000). The Company utilizes interest rate swaps to reduce its interest rate risk associated with its financial obligations that bear variable interest rates. At December 31, 2015, the Company had \$51,816,384 (2014 – \$57,228,366) in fixed interest rate swaps with a maturity date of September 30, 2017.

(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 accounts 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 accounts receivable. Management regularly reviews the collectability of accounts receivable 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 banks.

(c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations on a current basis. The Company manages liquidity risk by regularly performing rolling cash flow forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and commitments. Management uses cash flow forecasts to identify financing requirements, which are then addressed through a combination of committed credit facilities and access to capital markets.

Repayment of amounts due within one year is typically funded by cash on hand, cash flow from operations including management of working capital, normal collection of current trade accounts receivable and refinancings.

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.

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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 including the present value of convertible notes (note 12) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

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

	2015	2014
	\$	\$
Borrowings, current	46,435.7	18,527.1
Borrowings, non-current	130,228.3	107,261.9
Less: Cash	(18,448.6)	(11,890.0)
Net debt	158,215.4	113,899.0
Shareholders' equity	106,358.7	122,259.7
Total capitalization	264,574.1	236,158.7
Net debt to capitalization	60%	48%

The Company's capital structure, excluding borrowings by CP Partnership as described in note 11 and note 12, at year end consisted of the following:

	2015	2014
	\$	\$
Borrowings, current (excluding non-recourse borrowings)	40,840.7	14,056.5
Borrowings, non-current (excluding non-recourse borrowings)	54,403.4	39,295.0
Less: Cash	(18,448.6)	(11,890.0)
Net debt	76,795.5	41,461.5
Shareholders' equity	106,358.7	122,259.7
Total capitalization	183,154.2	163,721.2
Net debt to capitalization	42%	25%

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

25. FINANCIAL INSTRUMENTS

The Company's accounts receivable, other deposits and advances, notes payable, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

Cash and cash equivalents and derivative instruments are measured at fair value.

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).

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The following table summarizes the Company's financial instruments at December 31, 2015 and 2014, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

	Fair value hierarchy level	2015	2014
		\$	\$
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	872.3	413.3
		872.3	413.3

26. ACQUISITION OF EL DORADO SAWMILL ASSETS

On August 6, 2015, the Company purchased the outstanding shares and shareholder loans of a US subsidiary for consideration of 100,000 common shares of the Company at a deemed price of \$6.75, as well as the reimbursement of certain costs previously incurred by the vendor.

Concurrently, the Company exercised its right to acquire a sawmill and related facilities and equipment, including approximately 186 acres of land, located near El Dorado, Arkansas, US (collectively, the "El Dorado Sawmill Assets") for total consideration of US\$21 million. The consideration was comprised of US\$12.36 million in cash and a US\$8.64 million vendor mortgage. The El Dorado Sawmill Assets are currently idled while the Company evaluates the optimal capital upgrade for the site.

27. RECLASSIFICATION OF COMPARATIVE AMOUNTS

Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation.

28. SUBSEQUENT EVENTS

Amendment of senior secured revolving asset based credit facility

On January 29, 2016, the Company completed the renewal of its revolving asset based credit facility for a further three-year term. The amendment increases the borrowing availability to \$35 million and extends the maturity date of the facility to January 29, 2019.

Exercise of payment-in-kind option of the PIK Note

In February 2016, the holder of the PIK Note exercised its option to convert the PIK Note to acquire the Conifex subsidiary which holds the Forest Licence. The redemption of the PIK Note and resultant net gain on the sale of the assets of approximately \$29.0 million will be recorded in the first quarter of 2016. As a result of the tax election filed in 2015 to increase the tax basis of the Forest Licence, the tax impact of the PIK Note redemption will be significantly reduced in 2016.