

Condensed consolidated interim financial statements of

Conifex Timber Inc.

September 30, 2015
(Unaudited)

Conifex Timber Inc.

September 30, 2015

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Conifex Timber Inc.

Condensed consolidated statement of net income (loss) and comprehensive income (loss)
period ended September 30, 2015 (unaudited)

(thousands of Canadian dollars)	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue	85,885.1	90,859.1	252,985.1	257,643.6
Costs and expenses				
Cost of goods sold	72,727.4	71,143.7	214,178.0	198,635.1
Freight and distribution costs	12,391.1	14,117.4	38,370.1	39,048.8
Export taxes	1,214.2	-	2,138.1	-
Selling, general and administrative	4,011.2	4,063.4	11,507.0	11,261.0
	90,343.9	89,324.5	266,193.2	248,944.9
Operating income	(4,458.8)	1,534.6	(13,208.1)	8,698.7
Loss on disposal of assets	-	-	(2.2)	(76.2)
Interest expense and accretion	(2,565.1)	(1,431.4)	(5,932.4)	(4,451.7)
Other income (expense)	(120.5)	59.6	(262.8)	172.4
Foreign exchange gain	1,571.5	899.0	2,399.5	333.5
	(1,114.1)	(472.8)	(3,797.9)	(4,022.0)
Income (loss) before tax	(5,572.9)	1,061.8	(17,006.0)	4,676.7
Current tax recovery	-	(10.5)	-	(10.5)
Net income (loss) and comprehensive income (loss) for the period	(5,572.9)	1,072.3	(17,006.0)	4,687.2
Net income (loss) per common share, basic and diluted (in dollars)	(0.26)	0.05	(0.81)	0.22

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

Confifex Timber Inc.

Condensed consolidated balance sheet
as at September 30, 2015 (unaudited)

(thousands of Canadian dollars)	Notes	As at September 30, 2015	As at December 31, 2014
		\$	\$
Assets			
<i>Current assets</i>			
Cash	8	6,167.8	10,059.6
Cash - restricted	8	7,704.1	1,830.4
Trade and other receivables		28,379.1	26,715.6
Prepaid expenses and deposits		9,806.8	8,908.6
Inventories	9	49,794.3	37,171.5
Current assets		101,852.1	84,685.7
Goodwill		3,310.5	3,310.5
Intangible assets		7,886.1	7,916.7
Property, plant and equipment		224,011.1	199,733.4
Deposits and long-term investments		881.7	984.5
Total assets		337,941.5	296,630.8
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		28,766.6	30,553.4
Current portion of reforestation obligations		3,904.5	4,018.7
Employee liabilities		2,628.0	1,732.0
Operating loans	10	16,793.6	11,800.5
Current portion of long-term debt	11	4,708.5	6,726.6
Current liabilities		56,801.2	54,831.2
Reforestation obligations		4,693.0	3,603.4
Environmental liabilities		1,532.7	1,705.2
Other long-term liabilities		13,259.7	6,969.4
Convertible notes	11	11,744.9	11,581.5
Payment-in-kind note	11	30,000.0	-
Long-term debt	11	113,348.4	95,680.4
Non-current liabilities		174,578.7	119,539.9
Total liabilities		231,379.9	174,371.1
Equity			
Share capital		157,800.8	156,423.3
Conversion option on convertible notes		326.4	351.3
Contributed surplus		11,407.7	11,452.4
Deficit		(62,973.3)	(45,967.3)
Total equity		106,561.6	122,259.7
Total liabilities and equity		337,941.5	296,630.8

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

Conifex Timber Inc.

Condensed consolidated statement of changes in equity
period ended September 30, 2015 (unaudited)

(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 nine months ended September 30, 2014	-	-	-	4,687.2	4,687.2
Issue of common shares upon conversion of notes	177.8	(94.0)	-	-	83.8
Issue of common shares upon vesting of share-based payment	625.3	-	(466.9)	-	158.4
Recognition of share-based payments	-	-	574.9	-	574.9
Balance at September 30, 2014	156,296.4	5,030.7	6,429.7	(45,925.2)	121,831.6
Net loss for the period October 1, 2014 to December 31, 2014	-	-	-	(42.1)	(42.1)
Issue of common shares upon vesting of share-based payment	126.9	-	(114.2)	-	12.7
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	-	-	106.2	-	106.2
Balance at December 31, 2014	156,423.3	351.3	11,452.4	(45,967.3)	122,259.7
Net loss for the nine months ended September 30, 2015	-	-	-	(17,006.0)	(17,006.0)
Issue of common shares upon vesting of share-based payment	702.5	-	(639.4)	-	63.1
Issue of common shares (Note 12)	675.0	-	-	-	675.0
Issue costs for subordinated convertible notes	-	(24.9)	-	-	(24.9)
Recognition of share-based payments	-	-	594.7	-	594.7
Balance at September 30, 2015	157,800.8	326.4	11,407.7	(62,973.3)	106,561.6

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

Conifex Timber Inc.

Condensed consolidated statement of cash flows
as at September 30, 2015 (unaudited)

(thousands of Canadian dollars)	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Cash flows from operating activities				
Net income (loss)	(5,572.9)	1,072.3	(17,006.0)	4,687.2
Items not affecting cash:				
Amortization	4,533.4	2,803.7	11,521.6	8,108.2
Incentive funding amortization	(137.5)	-	(304.6)	-
Change in mark-to-market value of lumber price derivatives	114.5	6.2	20.8	130.9
Change in reforestation obligations	430.0	(384.8)	975.3	(132.3)
Interest expense and accretion	2,565.1	1,431.4	5,932.4	4,451.7
Share based compensation	254.3	144.9	657.9	664.3
Other	-	-	2.2	89.7
	2,186.9	5,073.7	1,799.6	17,999.7
Change in:				
Trade and other receivables	(3,299.7)	1,550.5	3,315.7	890.1
Prepaid expenses and deposits	1,589.5	3,371.8	(84.0)	(1,657.8)
Inventories	(13,839.0)	(4,196.7)	(12,622.7)	414.3
Accounts payable, accrued liabilities and other payables	2,632.7	(810.9)	2,081.6	(3,801.6)
Environmental liabilities	(115.8)	(6.7)	(172.5)	(83.5)
Employee liabilities	587.3	365.7	896.0	569.6
Net cash provided from (used in) operating activities	(10,258.1)	5,347.4	(4,786.3)	14,330.8
Cash flows from investing activities				
Additions to property, plant and equipment	(2,539.7)	(18,808.0)	(21,689.2)	(55,609.3)
Acquisition of El Dorado sawmill assets (Note 12)	(16,585.7)	-	(16,585.7)	-
Additions to long-term investments	(12.2)	-	(12.2)	(569.7)
Acquisition of subsidiaries	-	-	-	(4,799.5)
Insurance proceeds received	4,546.0	-	6,046.0	-
Proceeds on disposal of assets	-	-	(2.2)	-
Net cash used in investing activities	(14,591.6)	(18,808.0)	(32,243.3)	(60,978.5)
Financing activities				
Financing fees	(559.3)	(155.9)	(646.2)	(160.9)
Proceeds (repayment) of operating loans	(341.3)	(1,261.8)	4,993.2	(1,981.5)
Incentive funding received	6,625.0	-	6,625.0	-
Proceeds of construction loan	-	16,223.5	9,562.5	49,677.3
Proceeds of payment-in-kind note (Note 11(e))	30,000.0	-	30,000.0	-
Repayment of long-term debt	(548.7)	(458.5)	(1,704.0)	(1,362.8)
Repayment of term loan	(425.0)	-	(425.0)	-
Repayment of senior secured notes (Note 11(c))	(4,000.0)	-	(4,000.0)	-
Interest paid	(2,999.4)	(1,277.8)	(5,394.0)	(3,103.4)
Net cash provided from financing activities	27,751.3	13,069.5	39,011.5	43,068.7
Net increase (decrease) in cash	2,901.6	(391.1)	1,981.9	(3,579.0)
Cash, beginning of period	10,970.3	15,421.3	11,890.0	18,609.2
Cash, end of period	13,871.9	15,030.2	13,871.9	15,030.2

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

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

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

1. GENERAL INFORMATION

The primary business of Conifex in its lumber segment includes timber harvesting, reforestation, forest management, 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. 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, 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2014 annual consolidated financial statements.

4. FINANCIAL INSTRUMENTS

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

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 following table summarizes the Company's financial instruments at September 30, 2015 and December 31, 2014, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

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(Tabular amounts expressed in thousands except per share amounts)

	Fair value hierarchy Level	September 30, 2015	December 31, 2014
		\$	\$
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	624.3	413.3
		624.3	413.3

5. 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.

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.

6. SEGMENT INFORMATION

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

- 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 Forest Products LLP ("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.

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
3 months ended September 30, 2015				
Sales to external customers	80,030.9	5,854.2	-	85,885.1
Operating income (loss)	(3,205.0)	204.9	(1,458.7)	(4,458.8)
Interest expense and accretion	-	(1,328.5)	(1,236.6)	(2,565.1)
Other expense	(120.5)	-	-	(120.5)
Foreign exchange gain	-	-	1,571.5	1,571.5
Net loss	(3,325.5)	(1,123.6)	(1,123.8)	(5,572.9)
Amortization	2,932.8	1,583.8	16.8	4,533.4
Capital expenditures	532.9	78.6	157.9	769.4
Acquisition of El Dorado (Note 12)	28,688.4	-	-	28,688.4
Identifiable assets	181,693.7	138,241.9	18,005.9	337,941.5
3 months ended September 30, 2014				
Sales to external customers	90,859.1	-	-	90,859.1
Operating income (loss)	2,964.0	2.2	(1,431.6)	1,534.6
Interest expense and accretion	-	-	(1,431.4)	(1,431.4)
Other income	59.6	-	-	59.6
Foreign exchange gain	-	-	899.0	899.0
Income tax recovery	-	-	10.5	10.5
Net income (loss)	3,023.6	2.2	(1,953.5)	1,072.3
Amortization	2,786.3	-	17.4	2,803.7
Capital expenditures	2,855.3	14,280.0	-	17,135.3
Identifiable assets	151,073.9	117,286.4	17,393.0	285,753.3

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
9 months ended September 30, 2015				
Sales to external customers	244,525.8	8,459.3	-	252,985.1
Operating loss	(9,272.8)	(311.6)	(3,623.7)	(13,208.1)
Loss on disposal of assets	(2.2)	-	-	(2.2)
Interest expense and accretion	-	(2,139.5)	(3,792.9)	(5,932.4)
Other expense	(262.8)	-	-	(262.8)
Foreign exchange gain	-	-	2,399.5	2,399.5
Net loss	(9,537.8)	(2,451.1)	(5,017.1)	(17,006.0)
Amortization	8,914.3	2,558.4	48.9	11,521.6
Capital expenditures	3,958.0	12,471.8	190.7	16,620.5
Acquisition of El Dorado (Note 12)	28,688.4	-	-	28,688.4
Identifiable assets	181,693.7	138,241.9	18,005.9	337,941.5

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
9 months ended September 30, 2014				
Sales to external customers	257,643.6	-	-	257,643.6
Operating income (loss)	12,702.4	7.9	(4,011.6)	8,698.7
Loss on disposal of assets	(76.2)	-	-	(76.2)
Interest expense and accretion	-	-	(4,451.7)	(4,451.7)
Other income	172.4	-	-	172.4
Foreign exchange gain	-	-	333.5	333.5
Income tax recovery	-	-	10.5	10.5
Net income (loss)	12,798.6	7.9	(8,119.3)	4,687.2
Amortization	8,057.9	-	50.3	8,108.2
Capital expenditures	7,487.9	47,940.6	-	55,428.5
Identifiable assets	151,073.9	117,286.4	17,393.0	285,753.3

Revenues by geographic area were as follows:

	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
United States	43,421.5	42,451.3	124,682.1	118,471.7
Canada	21,894.1	18,235.9	62,729.9	56,708.0
China	9,889.8	22,743.4	38,706.8	61,219.1
Japan	8,117.4	6,822.2	21,207.8	19,328.0
Other	2,562.3	606.3	5,658.5	1,916.8
	85,885.1	90,859.1	252,985.1	257,643.6

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

7. INCOME TAX

The Company has not recognized current income tax expense during the third quarter of 2015 as the Company had non-capital loss carry forwards totalling approximately \$30.4 million as at December 31, 2014. Due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefits of its deferred tax assets available to reduce future taxable income.

8. CASH

	September 30, 2015	December 31, 2014
	\$	\$
Cash	6,167.8	10,059.6
Cash - restricted	7,704.1	1,830.4
	13,871.9	11,890.0

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

9. INVENTORIES

	September 30, 2015	December 31, 2014
	\$	\$
Logs	19,342.6	11,885.7
Lumber	23,950.0	20,234.3
By-products	891.7	383.2
Supplies and other	5,610.0	4,668.3
	49,794.3	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 September 30, 2015 by \$1,982,416 (December 31, 2014 – \$280,248). Write-downs are included in cost of goods sold when incurred.

10. OPERATING LOANS

\$25 Million senior secured revolving asset backed credit facility

The Company entered into a three-year \$25 million senior secured revolving asset backed 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 U.S. 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.

In December 2014, the Facility was amended to provide a seasonal expansion of \$10 million until May 31, 2015. The temporary increase was provided on substantially the same terms as the original Facility. The Facility was also amended to provide a temporary increase until July 31, 2015 in certain permitted affiliate transactions to accommodate a temporary advance to the Company's wholly-owned subsidiary, Conifex Power Limited Partnership ("CP Partnership").

The Facility is primarily secured by a first priority security interest on existing and future current assets of the lumber segment. 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 Company has drawn \$10.35 million of the Facility as at September 30, 2015 (December 31, 2014 – \$6.5 million).

Demand revolving loan and demand revolving line

Lignum 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 plus an applicable margin or U.S. 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 \$6.44 million of the Revolving Loan as at September 30, 2015 (December 31, 2014 – \$5.3 million).

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

11. BORROWINGS

	September 30, 2015	December 31, 2014
	\$	\$
Non-current		
Long term debt (a)	32.7	304.3
Subordinated convertible notes (b)	11,744.9	11,581.5
Senior secured notes (c)	24,120.6	27,409.2
Term loan (d)	77,690.1	67,966.9
Payment-in-kind note (e)	30,000.0	-
Mortgage (f)	11,505.0	-
	155,093.3	107,261.9
Current		
Current portion of long term debt (a)	823.6	2,256.0
Current portion of term loan (d)	3,884.9	4,470.6
	4,708.5	6,726.6
Total borrowings	159,801.8	113,988.5

(a) Secured loan facility sponsored by the Northern Development Initiative Trust

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 payments 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 \$475,952 of the CAF loan during the three month period ended September 30, 2015 (year ended December 31, 2014 – \$1,825,621).

Long-term debt also includes three capital leases for mobile equipment. The capital leases expire in 2015, 2016 and 2017 and the principal outstanding at September 30, 2015 was \$292,582 (December 31, 2014 – \$581,923).

(b) Subordinated convertible notes

On December 15, 2014, the Company issued \$12 million 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.

For the three months ended September 30, 2015, the Company recorded expenses that comprised accretion of \$40,806, amortization of issuance costs of \$11,968 and interest expense of \$211,726 (year ended December 31, 2014 – \$2,920, \$739 and \$36,822 respectively).

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

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

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

For the three months ended September 30, 2015, the Company recorded expenses that comprised accretion of \$225,718, amortization of issuance costs of \$11,383 and interest expense of \$554,082 (year ended December 31, 2014 – \$902,873, \$45,292 and \$2,432,877 respectively).

(d) 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 comprises a development and construction loan facility of up to \$82 million (the “Construction Facility”), a \$18.95 million letter of credit facility primarily to secure certain obligations of CP Partnership, and a \$1.75 million revolving operating facility. The Construction Facility is comprised of floating rate and fixed rate tranches, both of which mature on July 31, 2015 (amended from June 30, 2015) and convert into an amortized term loan maturing December 1, 2019 once the conditions to conversion are satisfied, including substantial completion of the power generation plant. Commencement of principal repayments on the term loan was amended from December 31, 2014 to September 30, 2015. The Project Financing is primarily secured by a first priority security interest on existing and after acquired assets of the CP Partnership.

On July 30, 2015, CP Partnership converted the Construction Facility into a term loan (the “Term Loan”) that matures on December 1, 2019. The Project Financing continues to include a letter of credit facility of \$18.75 million and a \$1.75 million operating facility until the maturity date of the Term Loan.

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.

As at September 30, 2015, CP Partnership had drawn \$82 million (December 31, 2014 – \$72.4 million) of the Construction Facility and issued letters of credit totaling \$18.75 million (December 31, 2014 – \$6.825 million) under the letter of credit facility provided under the Project Financing. CP Partnership repaid \$425,000 of the floating rate tranche borrowings during the three month period ended September 30, 2015 (year ended December 31, 2014 – \$nil).

Interest during the three months ended September 30, 2015 of \$nil (year ended December 31, 2014 – \$3,433,565) has been capitalized to the power generation plant. For the three months ended September 30, 2015, CP Partnership recorded interest expense of \$1,323,450 and financing expense of \$5,041 (year ended December 31, 2014 – nil).

(e) \$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.

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

(f) Mortgage

On August 6, 2015, the Company acquired sawmill assets located in El Dorado, Arkansas, United States (see Note 12). 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 three months ended September 30, 2015, accrued interest of US\$80,956 was capitalized to the El Dorado Sawmill Assets.

12. ACQUISITION OF EL DORADO SAWMILL ASSETS

On August 6, 2015, the Company purchased the outstanding shares and shareholder loans of a U.S. 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, U.S. (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 an 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.

13. RECLASSIFICATION OF COMPARATIVE AMOUNTS

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