Consolidated financial statements of

Conifex Timber Inc.

December 31, 2017 and 2016

February 15, 2018

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, 2017 and December 31, 2016 and the consolidated statements of net income and comprehensive income, 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, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, BC, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Conifex Timber Inc.

Consolidated balance sheets
As at December 31, 2017 and 2016

(thousands of Canadian dollars)	Notes	**As at December 31, 2017**	As at December 31, 2016
		$	$
Assets			
Current assets			
Cash		**16,860.4**	12,650.3
Cash - restricted	12	**9,280.8**	10,309.3
Trade and other receivables		**38,235.4**	28,581.8
Prepaid expenses and deposits		**11,644.9**	13,906.9
Inventories	4	**61,904.9**	56,337.9
Current assets		**137,926.4**	121,786.2
Goodwill	5	**3,310.5**	3,310.5
Intangible assets	5	**5,232.4**	5,119.8
Property, plant and equipment	6	**272,950.0**	213,339.0
Long-term investments and other	7	**25,398.8**	21,729.8
Total assets		**444,818.1**	365,285.3
Liabilities			
Current liabilities			
Trade payables, accrued liabilities and other payables		**34,813.2**	28,769.8
Current portion of reforestation obligations	8	**5,286.6**	5,366.3
Employee liabilities		**1,915.1**	1,882.1
Operating loans	11	**1,600.0**	28,198.7
Current portion of mortgage	12	**-**	10,440.8
Current portion of long-term debt	12	**5,874.9**	4,438.2
Current liabilities		**49,489.8**	79,095.9
Reforestation obligations	8	**7,785.2**	6,744.2
Environmental liabilities	9	**1,339.1**	1,474.0
Other long-term liabilities	10	**11,136.5**	11,798.7
Long-term debt	12	**68,137.5**	88,664.0
Revolving credit facility	13	**94,180.9**	-
Deferred income tax liabilities	20	**3,105.5**	-
Non-current liabilities		**185,684.7**	108,680.9
Total liabilities		**235,174.5**	187,776.8
Equity			
Share capital	14	**174,282.0**	158,601.8
Conversion option on convertible notes		**-**	326.4
Contributed surplus		**11,444.6**	11,634.7
Retained earnings		**23,917.0**	6,945.6
Total equity		**209,643.6**	177,508.5
Total liabilities and equity		**444,818.1**	365,285.3

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

Conifex Timber Inc.

Consolidated statements of net income and comprehensive income
Years ended December 31, 2017 and 2016

		Year ended December 31,	
(thousands of Canadian dollars)	Notes	**2017**	2016
		$	$
Revenue	17	**469,728.6**	409,307.7
Costs and expenses			
Cost of goods sold		**351,025.2**	314,934.7
Freight and distribution costs		**57,307.9**	58,694.4
Softwood lumber duties		**9,898.5**	-
Selling, general and adminstrative	18	**20,065.8**	17,522.5
		438,297.4	391,151.6
Operating income		**31,431.2**	18,156.1
Gain on disposal of assets		**7.0**	48,002.5
Interest expense and accretion	19	**(7,585.9)**	(9,120.3)
Other income (expense)		**(1,904.0)**	848.9
Foreign exchange loss		**(1,871.4)**	(982.8)
Gain on revaluation		**-**	13,329.1
		(11,354.3)	52,077.4
Income before taxes		**20,076.9**	70,233.5
Income tax expense:	20		
Current		**-**	-
Deferred		**3,105.5**	-
		3,105.5	-
Net income and comprehensive income for the year		**16,971.4**	70,233.5
Net income per share, basic and diluted: (in dollars)	21	**0.67**	3.32

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, 2017 and 2016

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Contributed surplus	Retained earnings (deficit)	Total equity
	$	$	$	$	$
Balance at December 31, 2015	157,835.6	326.4	11,484.6	(63,287.9)	106,358.7
Net income for the year ended December 31, 2016	-	-	-	70,233.5	70,233.5
Issue of common shares upon vesting of share-based payment	766.2	-	(740.6)	-	25.6
Recognition of share-based payments	-	-	890.7	-	890.7
Balance at December 31, 2016	158,601.8	326.4	11,634.7	6,945.6	177,508.5
Net income for the year ended December 31, 2017	**-**	**-**	**-**	**16,971.4**	**16,971.4**
Cash settlement of subordinated convertible notes	**-**	**(326.4)**	**326.4**	**-**	**-**
Public offering and private placement of common shares, net of issue costs	**14,201.4**	**-**	**-**	**-**	**14,201.4**
Issue of common shares upon vesting of share-based payment	**1,478.8**	**-**	**(1,437.9)**	**-**	**40.9**
Recognition of share-based payments	**-**	**-**	**921.4**	**-**	**921.4**
Balance at December 31, 2017	**174,282.0**	**0.0**	**11,444.6**	**23,917.0**	**209,643.6**

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

Conifex Timber Inc.

Consolidated statements of cash flows
Years ended December 31, 2017 and 2016

(thousands of Canadian dollars)	Year Ended December 31, **2017**	2016
	$	$
Cash flows from operating activities		
Net income	**16,971.4**	70,233.5
Items not affecting cash:		
Amortization and depreciation	**18,312.3**	18,123.3
Change in mark-to-market value of lumber price derivatives	**515.7**	(395.6)
Change in reforestation obligations	**961.3**	3,245.2
Interest expense and accretion	**7,585.9**	9,120.3
Income tax expense	**3,105.5**	-
Share-based compensation	**962.2**	916.3
LDA accretion	**(627.2)**	(627.4)
Gain on disposal of assets	**(7.0)**	(48,002.5)
Gain on revaluation	**-**	(13,329.1)
Other	**577.7**	-
	48,357.8	39,284.0
Change in:		
Trade and other receivables	**(10,169.3)**	(4,664.7)
Prepaid expenses and deposits	**(2,355.7)**	(2,544.8)
Inventories	**(5,567.0)**	(13,105.9)
Trade payables, accrued liabilities and other payables	**1,587.1**	4,701.9
Environmental liabilities	**(134.9)**	(55.6)
Employee liabilities	**33.0**	91.0
Net cash provided from operating activities	**31,751.0**	23,705.9
Cash flows from investing activities		
Additions to property, plant and equipment	**(73,112.2)**	(17,620.0)
Additions to long-term investments	**-**	(20.9)
Net proceeds from insurance claim settlement	**-**	2,926.0
Proceeds on disposal of assets, net	**204.3**	20,148.6
Net cash provided from (used in) investing activities	**(72,907.9)**	5,433.7
Cash flows from financing activities		
Proceeds from public offering and private placement	**14,201.4**	-
Proceeds of capital leases	**6,304.2**	576.4
Proceeds of revolving credit facility	**95,887.1**	-
Repayment of term loan	**(5,807.8)**	(7,306.8)
Repayment of mortgage	**(10,440.8)**	(1,157.1)
Repayment of senior secured notes	**(20,300.0)**	(5,700.0)
Proceeds (repayment) of operating loans	**(26,598.7)**	9,871.9
Repayment of subordinated convertible notes	**-**	(12,000.0)
Financing fees	**(1,929.0)**	(694.0)
Interest paid	**(6,977.9)**	(8,219.0)
Net cash provided from (used in) financing activities	**44,338.5**	(24,628.6)
Net increase in cash	**3,181.6**	4,511.0
Cash, beginning of year	**22,959.6**	18,448.6
Cash, end of year	**26,141.2**	22,959.6

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

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, processing 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 15, 2018.

2.2 Basis of measurement

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

2.3 Basis of consolidation

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

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

Joint ventures are accounted for using the equity method.

2.4 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.

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 on hand, deposits held with banks, and other short-term highly liquid investments.

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.

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. CGUs are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU exceeds its recoverable amount, the recoverable amount of the CGU's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(b) Other intangible assets

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

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

2.11 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. All other assets are depreciated on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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

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

2.12 Government grants

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

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

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

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 in net income at the amount the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped into CGUs. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Employee benefits

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

2.15 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 provide for options, restricted share units, performance share units and deferred share units to be awarded as consideration for services from directors, employees and consultants. The fair value of the equity instrument and the employee services received in exchange for the grant of the options or share awards is measured at the grant date.

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

2.17 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 can be reliably measured, the significant risks and rewards of ownership are passed to the customer, and collectability is reasonably assured.

2.18 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.

2.19 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.

2.20 Income taxes

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

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

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

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

2.21 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.

2.22 Critical judgements and estimates

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgements have been applied in a manner consistent with prior periods. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include valuation of inventory, income taxes, provision for accrued liabilities, environmental and reforestation obligations, 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.

2.23 Accounting standards issued and not yet adopted

(a) IFRS 2, Share-based Payment

In June 2016, the IASB issued an amendment to IFRS 2, *Share-based Payment*, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for the year beginning on or after January 1, 2018. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

(b) 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 beginning on or after January 1, 2018 with early adoption permitted. The Company does not anticipate the new standard to have a significant impact on its consolidated financial statements.

(c) 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. In September 2015, the IASB formalized a one-year deferral of the effective date to the year beginning on or after January 1, 2018. In April 2016, the IASB issued an amendment clarifying the guidance on identifying performance obligations, licences of intellectual property and principal versus agent, and to provide additional practical expedients upon transition. The Company does not expect this standard will have a significant impact on its consolidated financial statements.

(d) 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 beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company does not expect this standard will have a significant impact on its consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars 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

	2017	2016
	$	$
Logs	**22,196.2**	25,712.3
Lumber	**32,795.3**	24,835.5
Supplies	**6,492.1**	5,682.0
By-products	**421.3**	108.1
	61,904.9	56,337.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at December 31, 2017 by $847,031 (2016 – nil). Write-downs are included in cost of goods sold when incurred.

5. GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

	2017	2016
	$	$
Cost and carrying amount	**3,310.5**	3,310.5

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

(b) Intangible assets

	Forestry licences	Software licences	Total
	$	$	**$**
Cost			
At December 31, 2015	8,550.0	466.4	**9,016.4**
Net dispositions	(2,566.5)	-	**(2,566.5)**
At December 31, 2016	5,983.5	466.4	**6,449.9**
Net additions	-	273.3	**273.3**
At December 31, 2017	**5,983.5**	**739.7**	**6,723.2**
Accumulated amortization			
At December 31, 2015	(775.8)	(397.5)	**(1,173.3)**
Amortization charge for the year	(125.7)	(31.1)	**(156.8)**
At December 31, 2016	(901.5)	(428.6)	**(1,330.1)**
Amortization charge for the year	(104.4)	(56.3)	**(160.7)**
At December 31, 2017	**(1,005.9)**	**(484.9)**	**(1,490.8)**
Carrying amount			
At December 31, 2016	5,082.0	37.8	**5,119.8**
At December 31, 2017	**4,977.6**	**254.8**	**5,232.4**

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

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Capital work in progress	Power assets	Power capital work in progress	Total
	$	$	$	$	$	**$**
Cost						
At December 31, 2015	5,395.0	135,460.3	1,942.9	127,004.7	1,454.0	**271,256.9**
Net additions *	69.0	4,030.3	13,087.2	921.5	(1,454.0)	**16,654.0**
Revaluation of property, plant and equipment	-	(5,833.0)	-	-	-	**(5,833.0)**
Disposals	-	(257.3)	-	-	-	**(257.3)**
At December 31, 2016	5,464.0	133,400.3	15,030.1	127,926.2	-	**281,820.6**
Net additions	-	11,696.2	65,537.0	725.9	-	**77,959.1**
Disposals	-	(222.2)	-	-	-	**(222.2)**
At December 31, 2017	**5,464.0**	**144,874.3**	**80,567.1**	**128,652.1**	**-**	**359,557.5**
Accumulated depreciation						
At December 31, 2015	-	(46,439.6)	-	(4,264.0)	-	**(50,703.6)**
Depreciation charge for the year	-	(12,399.2)	-	(5,567.3)	-	**(17,966.5)**
Disposals	-	188.5	-	-	-	**188.5**
At December 31, 2016	-	(58,650.3)	-	(9,831.3)	-	**(68,481.6)**
Depreciation charge for the year	-	(13,255.5)	-	(4,896.1)	-	**(18,151.6)**
Disposals	-	25.7	-	-	-	**25.7**
At December 31, 2017	**-**	**(71,880.1)**	**-**	**(14,727.4)**	**-**	**(86,607.5)**
Carrying amount						
At December 31, 2016	5,464.0	74,750.0	15,030.1	118,094.9	-	**213,339.0**
At December 31, 2017	**5,464.0**	**72,994.2**	**80,567.1**	**113,924.7**	**-**	**272,950.0**

* Insurance proceeds received in the year of $1.45 million were netted against the Power capital work in progress additions.

For the year ended December 31, 2017, the Company has spent $70.8 million in upgrading and modernizing a sawmill and related facilities and equipment located near El Dorado, Arkansas, US (collectively, the “El Dorado Mill”). Capital costs included plant development, construction and equipment costs, contractor services, and capitalized interest, commissioning and start-up costs. From inception to date, the modernization project has cost $80.18 million. The costs incurred prior to 2017 were related to site preparation, equipment deposits, and capitalized interest, administrative and other holding costs.

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

7. LONG-TERM INVESTMENTS AND OTHER

	2017	2016
	$	$
Joint venture investment	**20,000.0**	20,000.0
Deposits and long-term receivables (note 27)	**3,165.8**	1,152.1
Timber inventory development	**2,233.0**	-
Other investments	**-**	577.7
	25,398.8	21,729.8

The Company's 50% ownership interest in a company which holds a forestry licence with an annual timber harvest of 300,000 m^3 is classified as a joint venture. At December 31, 2017, the carrying value of the equity investment is $20 million (2016 - $20 million).

8. REFORESTATION OBLIGATIONS

	2017	2016
	$	$
Reforestation obligations		
Current	**5,286.6**	5,366.3
Non-current	**7,785.2**	6,744.2
	13,071.8	12,110.5

	2017	2016
	$	$
Balance at beginning of year	**12,110.5**	8,865.3
Additional provisions recognized	**6,650.1**	6,632.7
Reductions arising from payment	**(5,591.5)**	(3,314.0)
Change arising from re-measurement or settlement without cost	**(97.3)**	(73.5)
	13,071.8	12,110.5

9. ENVIRONMENTAL LIABILITIES

	2017	2016
	$	$
Balance at beginning of year	**1,474.0**	1,529.6
Reductions arising from payment	**(96.2)**	(58.7)
Change arising from re-measurement or settlement without cost	**(38.7)**	3.1
	1,339.1	1,474.0

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

10. OTHER LONG-TERM LIABILITIES

	2017	2016
	$	$
Other liabilities	**230.8**	265.8
Deferred revenue	**10,905.7**	11,532.9
	11,136.5	11,798.7

Deferred revenue of $10.91 million (2016 – $11.53 million) comprises the incentive funds drawn under the Load Displacement Agreement with BC Hydro and is secured by letters of credit (note 12(c)). The incentive funding is recognized in profit on a systematic basis over the 20-year term of the agreement from April 30, 2015. The Company recognized $627,132 (2016 – $627,356) of the incentive funding as revenue during the year.

11. OPERATING LOANS

(a) $35 million senior secured revolving asset based credit facility

In January 2016, the Company entered into a three-year $35 million senior secured revolving asset based credit facility (the "Facility") with a Canadian chartered bank. Under the terms of the Facility, amounts drawn and to be repaid were determined by a borrowing base calculation that fluctuated with eligible accounts receivable and inventory balances, net of specific reserves. Borrowings could be in Canadian or US dollars. Interest rates on Canadian dollar borrowings were based on either banker's acceptances or the Canadian chartered bank prime rate, at the Company's option, plus an applicable margin.

On January 9, 2017, the Company repaid in full and extinguished the Facility (balance at December 31, 2016 – $19.75 million).

(b) Demand revolving loan and demand revolving line

Lignum Forest Products LLP ("Lignum"), a wholly-owned subsidiary of the Company, had a $10 million demand revolving loan, a US$1 million manufacturer's advance facility to fulfill confirmed sales contracts for supply of lumber to foreign buyers, and access to a foreign exchange facility (collectively, the "Revolving Loan"). The Revolving Loan bore interest at Canadian prime rate or US base rate plus an applicable margin.

Lignum fully repaid and discharged the Revolving Loan in the first quarter of 2017 (balance at December 31, 2016 – $6.85 million).

(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(c)).

As of December 31, 2017, CP Partnership has drawn $1.60 million of the revolving operating facility (2016 – $1.60 million).

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

12. BORROWINGS

	2017	2016
	$	$
Non-current		
Capital leases (a)	**5,635.2**	680.8
Senior secured notes (b)	**-**	19,606.1
Term loan (c)	**62,502.3**	68,377.1
	68,137.5	88,664.0
Current		
Mortgage payable (d)	**-**	10,440.8
Current portion of capital leases (a)	**1,571.9**	202.2
Current portion of term loan (c)	**4,303.0**	4,236.0
	5,874.9	14,879.0
Total borrowings	**74,012.4**	103,543.0

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

	Amount
	$
2018	**5,874.9**
2019	**64,021.3**
2020	**1,489.1**
2021	**1,583.0**
2022	**1,044.1**
Thereafter	**-**
	74,012.4

(a) Capital leases

Capital leases are for mobile and other equipment. The capital leases expire between 2018 and 2022. The principal balance outstanding at December 31, 2017 is $7.21 million (2016 – $882,946).

(b) Senior secured notes

In September 2013, the Company issued promissory notes (the “Notes”) in the aggregate principal amount of $30 million. The Notes had a maturity date of September 18, 2017 and bore interest at a rate of 8% per annum.

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 was calculated using the Black-Scholes option pricing model at $3.41. The related issuance costs were amortized over the term of the Notes.

The Company redeemed $4 million of the Notes in August 2015 and $5.7 million in April 2016. On January 9, 2017, the Company redeemed in full the remaining $20.3 million of the issued Notes.

(c) Term loan

CP Partnership secured project financing (the "Project Financing") with a syndicate of institutional lenders led by a Canadian chartered bank in November 2013. The Project Financing was for an aggregate of up to $102.7 million and included a development and construction loan facility of up to $82 million (the "Construction Facility"). 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 an $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.

The Project Financing comprises floating rate and fixed rate tranches. 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. The Company has entered into an interest rate swap on the floating rate tranche.

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, 2017, CP Partnership has issued letters of credit totaling $12.74 million (2016 – $18.75 million) under the letter of credit facility provided under the Project Financing.

For the year ended December 31, 2017, CP Partnership recorded interest and financing expense of $4.68 million (2016 – $5.10 million). CP Partnership repaid $4.53 million of the floating rate tranche and $1.28 million of the fixed rate tranche during the year (2016 – $6.03 million and $1.28 million respectively).

As at December 31, 2017, CP Partnership held $9.28 million of cash in restricted accounts (2016 – $10.31 million). Funds from restricted accounts are distributed in accordance with the terms of the Project Financing.

(d) Mortgage payable

On August 6, 2015, the Company acquired the El Dorado Mill. Consideration paid for the acquired assets included a US$8.64 million vendor mortgage (the "Mortgage"). The Mortgage bore interest at a rate of 6% per annum, payable quarterly beginning on November 1, 2015, and had a maturity date 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 Mill.

In 2016, the Mortgage was amended to provide for early repayment by the Company of US$864,000 of the principal amount on November 1, 2016, to allow commencement of certain site preparation and preconstruction activities at the El Dorado Mill. The Mortgage was subsequently amended to extend the maturity date to March 31, 2017.

On March 31, 2017, the Company repaid in full the remaining principal amount and accrued interest on the Mortgage.

13. REVOLVING CREDIT FACILITY

On January 9, 2017, the Company entered into a five-year $130 million secured revolving asset based credit facility (the "Revolving Facility") with a syndicate of institutional lenders. Under the terms of the Revolving Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, plus appraised values of certain forestry licences, net of specific reserves. Borrowings can be in Canadian or US dollars. Interest rates on borrowings against the Revolving Facility are based on either the Canadian Dollar Offered Rate ("CDOR") or the London Interbank Offered Rate ("LIBOR") plus an applicable margin.

The portion of the commitment that is not drawn is subject to an unused line fee. The Revolving Facility is primarily secured by a first priority security interest on substantially all existing and after acquired lumber segment assets. The Company is subject to customary covenants, including a fixed charge coverage ratio.

Conifex primarily uses the Revolving Facility to finance working capital in its lumber segment and a portion of the capital expenditures related the El Dorado Mill.

As at December 31, 2017, the Company has drawn $95.89 million of the Revolving Facility (December 31, 2016 – nil) and deferred financing costs netted against the Revolving Facility was $1.71 million (December 31, 2016 – nil).

14. 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, 2015	21,111	157,835.6
Shares vested under share-based compensation plan (note 15)	92	766.2
Balance at December 31, 2016	21,203	158,601.8
Public offering and private placement of common shares, net of issue costs	**5,050**	**14,201.4**
Shares vested under share-based compensation plan (note 15)	**185**	**1,478.8**
Balance at December 31, 2017	**26,438**	**174,282.0**

15. SHARE-BASED COMPENSATION

15.1 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 are 100,000 options outstanding at December 31, 2017 (2016 – 100,000 options) with an exercise price of $8.25 per share. The options were granted on August 20, 2010 with an expiry date of 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 was 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 was estimated at $265,000 or $2.65 per option. No expense related to the stock option plan was recognized in the year ended December 31, 2017 (2016 – $9,785).

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

15.2 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:

	2017 Number	**2017 WAFV**	2016 Number	2016 WAFV
		$		$
Outstanding at January 1	**666,962**	**5.33**	417,837	7.75
Granted during the year	**540,000**	**3.14**	385,000	3.38
Forfeited during the year	**(80,000)**	**4.75**	(49,178)	5.90
Vested during the year	**(184,705)**	**8.01**	(86,697)	8.06
Outstanding at December 31	**942,257**	**3.60**	666,962	5.33

The awards typically vest in three years. 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 $962,219 was recognized in the year ended December 31, 2017 (2016 – $916,298). The compensation expense is allocated between cost of goods sold and selling, general and administrative expense.

(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. No expense was recognized and no cash payments were made in regards to vested PSUs in the year ended December 31, 2017 (2016 – nil).

(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. There was no expense recognized for the grant of DSUs in the year ended December 31, 2017 (2016 – nil).

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

16. WARRANTS

	Number of warrants	Amount
		$
Balance at December 31, 2015	1,220,417	3,931,352.6
Warrants expired and cancelled during 2016	(160,417)	(319,861.0)
Balance at December 31, 2016	1,060,000	3,611,491.6
Warrants expired and cancelled during 2017	**(1,060,000)**	**(3,611,491.6)**
Balance at December 31, 2017	**-**	**-**

In connection with the September 2013 issuance of senior secured notes (note 12(b)), 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. The fair market value of the warrants was recorded against the carrying value of the borrowing and amortized over the term of the promissory notes. During the year ended December 31, 2017, the Company recorded accretion expense of $659,792 (2016 – $902,873) related to the common share purchase warrants.

The warrants expired on September 18, 2017.

17. REVENUE

	2017	2016
	$	$
Lumber	**400,233.9**	348,175.6
Lumber by-products	**26,117.0**	25,526.2
Bioenergy	**25,858.0**	25,166.2
Transportation services	**17,519.7**	10,439.7
	469,728.6	409,307.7

18. SELLING, GENERAL AND ADMINISTRATIVE

	2017	2016
	$	$
Selling and logistics services	**9,361.9**	8,357.4
Salaries and benefits	**4,605.0**	4,169.2
Legal, professional and organizational	**2,949.6**	2,346.7
Other administrative expenses	**2,855.2**	2,336.0
Depreciation and amortization	**294.1**	313.2
	20,065.8	17,522.5

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

19. INTEREST EXPENSE AND ACCRETION

	2017	2016
	$	$
Interest expense	**6,360.3**	7,848.8
Accretion	**659.8**	1,059.3
Financing expense	**565.8**	212.2
	7,585.9	9,120.3

During the year, interest of $2.85 million (2016 – $676,193) has been capitalized to the El Dorado Mill.

20. INCOME TAX

20.1 Current income taxes

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

	2017	2016
	$	$
Current	**-**	-
Deferred	**3,105.5**	-
	3,105.5	-

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

	2017	2016
	$	$
Income before taxes	**20,076.9**	70,233.5
Income tax expense at corporation rate of 26.00% (2016 – 26.00%)	**5,220.0**	18,260.7
Non-deductible (non-taxable) items for tax purposes	**373.8**	(4,598.4)
Effect of unrecognized deferred tax on investment in joint venture	**-**	(2,491.1)
Effect on deferred balances due to changes in income tax rates	**(33.1)**	-
Change in deferred tax assets not recognized	**(2,491.8)**	(11,335.5)
Other	**36.6**	164.3
Total income tax expense	**3,105.5**	**-**

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

20.2 Deferred income taxes

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

The source of deferred income taxes is as follows:

	2017	2016
	$	$
Property, plant, equipment and intangibles	**(9,903.4)**	(7,199.8)
Reforestation and environmental obligations	**3,864.3**	3,532.0
Loss carryforwards	**2,069.5**	5,191.2
Other	**864.1**	762.7
	(3,105.5)	2,286.1

As at December 31, 2017, deferred income tax assets have been recognized to the extent of the related tax benefit based on management's best estimate of future circumstances and events. Previously, no deferred tax assets had been recognized due to the uncertainty as to realization.

20.3 Non-capital loss carryforwards

As at December 31, 2017, the Company has non-capital losses from the following years:

Year of loss	Non-capital loss amount
	$
2010	**65.8**
2011	**982.4**
2012	**-**
2013	**267.5**
2014	**371.1**
2015	**2,467.6**
2016	**1,368.0**
2017	**2,142.4**
	7,664.8

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

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

21. NET INCOME PER SHARE

	Year ended December 31, 2017			Year ended December 31, 2016		
	Net income	**Weighted average number of shares**	**Per share**	Net income	Weighted average number of shares	Per share
	$		**$**	$		$
Basic income per share	**16,971.4**	**25,446**	**0.67**	70,233.5	21,159	3.32
Convertible notes	**-**	**-**	**-**	-	- *	-
Diluted income per share	**16,971.4**	**25,446**	**0.67**	70,233.5	21,159	3.32

* Convertible notes which matured on December 15, 2016 have been removed from the computation of net income per share in 2016.

22. RELATED PARTY TRANSACTIONS

Key management personnel

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

	2017	2016
	$	$
Short-term benefits	**2,800.6**	2,644.3
Share-based payments	**591.7**	382.7
	3,392.3	3,027.0

23. 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, processing 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.

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

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	$	$	$	$
Year ended December 31, 2017				
Sales to external customers	**443,870.6**	**25,858.0**	**-**	**469,728.6**
Operating income (loss)	**31,381.3**	**7,550.1**	**(7,500.2)**	**31,431.2**
Gain on disposal of assets	**7.0**	**-**	**-**	**7.0**
Interest expense and accretion	**-**	**(4,682.1)**	**(2,903.8)**	**(7,585.9)**
Other expense	**(1,326.3)**	**-**	**(577.7)**	**(1,904.0)**
Foreign exchange loss	**-**	**(5.9)**	**(1,865.5)**	**(1,871.4)**
Income tax expense	**-**	**-**	**(3,105.5)**	**(3,105.5)**
Net income (loss)	**30,062.0**	**2,862.1**	**(15,952.7)**	**16,971.4**
Depreciation and amortization	**13,278.9**	**4,896.0**	**137.4**	**18,312.3**
Capital expenditures	**77,689.5**	**138.9**	**404.0**	**78,232.4**
Identifiable assets	**292,095.6**	**132,294.8**	**20,427.7**	**444,818.1**
Year ended December 31, 2016				
Sales to external customers	384,141.5	25,166.2	-	409,307.7
Operating income (loss)	15,084.5	9,016.5	(5,944.9)	18,156.1
Gain on disposal of assets	48,002.5	-	-	48,002.5
Gain on revaluation	13,329.1	-	-	13,329.1
Interest expense and accretion	-	(5,103.8)	(4,016.5)	(9,120.3)
Other income	841.7	7.2	-	848.9
Foreign exchange loss	-	(2.0)	(980.8)	(982.8)
Net income (loss)	77,257.8	3,917.9	(10,942.2)	70,233.5
Depreciation and amortization	12,477.4	5,567.3	78.6	18,123.3
Capital expenditures	16,365.3	54.5	234.2	16,654.0
Identifiable assets	210,997.1	140,304.9	13,983.3	365,285.3

Revenues by geographic area were as follows:

	2017	2016
	$	$
United States	**273,167.1**	239,156.2
Canada	**105,749.5**	86,270.9
China	**41,689.7**	38,470.3
Japan	**36,184.0**	33,893.5
Other	**12,938.3**	11,516.8
	469,728.6	409,307.7

The Company's harvesting, manufacturing and power generation operations are located in the interior of British Columbia, Canada and in Arkansas, United States.

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

24. COMMITMENTS

Lease payments

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

	2017	2016
	$	$
Office and office equipment	**871.4**	820.1
Vehicles	**375.5**	278.4
Equipment	**363.6**	227.8
	1,610.5	1,326.3

Lease commitments

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

	2017	2016
	$	$
Less than 1 year	**1,577.3**	1,129.2
Later than 1 year and not later than 5 years	**4,834.3**	2,805.6
Later than 5 years	**942.7**	1,477.3
	7,354.3	5,412.1

25. 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.

As at December 31, 2017, the Company's US dollar denominated accounts receivable totaled US$15.78 million (2016 – US$10.6 million) and accounts payable totaled US$8.54 million (2016 – US$3.53 million). The US dollar denominated amount drawn on the Revolving Facility is $18.09 million (2016 – nil).

(ii) Commodity price risk

The Company is exposed to commodity price risk related to the sale of lumber and residual products and purchase of certain manufacturing inputs which are purchased primarily on the open market. From time to time, the Company enters into futures contracts on the Chicago Mercantile Exchange to reduce its exposure to risks associated with fluctuations in lumber prices. At December 31, 2017, the fair value of non-covered outstanding commodity financial instruments was $1.67 million (2016 – $1.58 million). 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$176,000 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, 2017, the Company's financial obligations bearing variable interest rates (excluding borrowings under revolving operating loans) totaled $46.64 million (2016 – $51.17 million). 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, 2017, the Company had $39.32 million (2016 – $46.17 million) in fixed interest rate swaps with a maturity date of September 30, 2032.

(b) Credit risk

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

(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.

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 (notes 11, 12 and 13) less cash and cash equivalents. Total capital is calculated as the sum of net debt and equity.

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

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

	2017	2016
	$	$
Borrowings, current	**7,474.9**	43,077.7
Borrowings, non-current	**162,318.4**	88,664.0
Less: cash	**(26,141.2)**	(22,959.6)
Net debt	**143,652.1**	108,782.1
Shareholders' equity	**209,643.6**	177,508.5
Total capitalization	**353,295.7**	286,290.6
Net debt to capitalization	**41%**	38%

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:

	2017	2016
	$	$
Borrowings, current (excluding non-recourse borrowings)	**1,571.9**	37,241.7
Borrowings, non-current (excluding non-recourse borrowings)	**99,816.1**	20,286.8
Less: cash	**(16,557.7)**	(10,012.2)
Net debt	**84,830.3**	47,516.3
Shareholders' equity	**209,643.6**	177,508.5
Total capitalization	**294,473.9**	225,024.8
Net debt to capitalization	**29%**	21%

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

26. 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).

The following table summarizes the Company's financial instruments at December 31, 2017 and 2016, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

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

	Fair value hierarchy level	**2017**	2016
		$	$
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	**1,665.9**	1,581.5
		1,665.9	1,581.5

27. SOFTWOOD LUMBER DISPUTE

On November 25, 2016, a coalition of US lumber producers petitioned the US Department of Commerce ("USDOC") and the US International Trade Commission ("USITC") to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy countervailing and antidumping duties against Canadian imports of softwood lumber.

On April 24, 2017, the USDOC announced its preliminary determination on countervailing duties ("CVD") and imposed a preliminary duty rate of 19.88% on a majority of Canadian lumber producers' lumber shipments into the US, including Conifex. The countervailing duty was posted by cash deposits or bonds on the export of softwood lumber to the US effective April 28, 2017 for a period of 120 days, in accordance with US law.

On June 26, 2017, the USDOC announced its preliminary determination on antidumping duties ("ADD") and imposed an "all others" preliminary duty rate of 6.87% to be posted by cash deposits or bonds on lumber shipments into the US effective June 30, 2017.

On November 2, 2017, the USDOC announced final determinations in its CVD and ADD investigations. As a result of its findings, the USDOC lowered the final CVD rate from 19.88% to 14.25% and the final ADD rate from 6.87% to 6.58% for "all other" Canadian lumber producers, including Conifex.

On December 28, 2017, the USITC published its notice of final affirmative determination of material injury, bringing into effect the final amended "all other" CVD rate of 14.19% and ADD rate of 6.04%, for a combined rate of 20.23%, on shipments of Canadian softwood lumber to the US from that date.

In 2017, the Company expensed CVD and ADD deposits totaling $9.9 million, based on the final effective rates, on shipments of softwood lumber to the US. The difference between cash deposits paid based on the preliminary rates and the amounts expensed of $2.27 million are included in deposits and long-term receivables (note 7).

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, the Company denies the US allegations and disagrees with the final determinations made by the USDOC and USITC, and collectively continues to aggressively defend the Canadian industry in this trade dispute. The Federal Government has initiated dispute proceedings with the North American Free Trade Agreement panels and the World Trade Organization.