

Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2015
(Unaudited)

Conifex Timber Inc.

March 31, 2015

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Confifex Timber Inc.

Condensed consolidated statement of net income and comprehensive income
period ended March 31, 2015 (unaudited)

(thousands of Canadian dollars)	Notes	3 months ended March 31,	
		2015	2014
		\$	\$
Revenue		85,262.9	67,211.2
Costs and expenses			
Cost of goods sold		67,422.2	51,172.6
Freight and distribution costs		13,011.4	9,552.3
Selling, general and administrative		3,752.0	3,679.8
		84,185.6	64,404.7
Operating income		1,077.3	2,806.5
Gain (loss) on disposal of assets		(2.2)	13.6
Interest expense and accretion		(1,268.1)	(1,501.1)
Other income (expense)		(85.3)	61.0
Foreign exchange gain		1,885.0	240.0
		529.4	(1,186.5)
Net income and comprehensive income for the period		1,606.7	1,620.0
Net income per common share, basic and diluted (in dollars)		0.08	0.08

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

Confifex Timber Inc.

Condensed consolidated balance sheet
as at March 31, 2015 (unaudited)

(thousands of Canadian dollars)	Notes	As at March 31, 2015	As at December 31, 2014
		\$	\$
Assets			
<i>Current assets</i>			
Cash	8	10,146.1	10,059.6
Cash - restricted	8	1,952.1	1,830.4
Trade and other receivables		25,070.4	26,715.6
Prepaid expenses and deposits		6,521.7	8,908.6
Inventories	9	50,599.8	37,171.5
Current assets		94,290.1	84,685.7
Goodwill		3,310.5	3,310.5
Intangible assets		7,972.1	7,916.7
Property, plant and equipment		204,983.5	199,733.4
Deposits		984.5	984.5
Total assets		311,540.7	296,630.8
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		29,774.2	30,553.4
Current portion of reforestation obligations		3,935.2	4,018.7
Employee liabilities		1,988.7	1,732.0
Operating loans	10	18,655.1	11,800.5
Current portion of long-term debt	11	6,971.4	6,726.6
Current liabilities		61,324.6	54,831.2
Reforestation obligations		5,019.5	3,603.4
Environmental liabilities		1,673.7	1,705.2
Other long-term liabilities		6,959.4	6,969.4
Convertible notes	11	11,639.4	11,581.5
Long-term debt	11	100,848.6	95,680.4
Non-current liabilities		126,140.6	119,539.9
Total liabilities		187,465.2	174,371.1
Equity			
Share capital		156,833.6	156,423.3
Conversion option on convertible notes		326.4	351.3
Contributed surplus		11,276.1	11,452.4
Deficit		(44,360.6)	(45,967.3)
Total equity		124,075.5	122,259.7
Total liabilities and equity		311,540.7	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 March 31, 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 three months ended March 31, 2014	-	-	-	1,620.0	1,620.0
Issue of common shares upon conversion of notes	152.1	(80.6)	-	-	71.5
Issue of common shares upon vesting of share-based payment	350.0	-	(299.2)	-	50.8
Recognition of share-based payments	-	-	529.6	-	529.6
Balance at March 31, 2014	155,995.4	5,044.1	6,552.1	(48,992.4)	118,599.2
Net income for the period April 1, 2014 to December 31, 2014	-	-	-	3,025.1	3,025.1
Issue of common shares upon conversion of notes	25.7	(13.4)	-	-	12.3
Issue of common shares upon vesting of share-based payment	402.2	-	(281.9)	-	120.3
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	-	-	151.5	-	151.5
Balance at December 31, 2014	156,423.3	351.3	11,452.4	(45,967.3)	122,259.7
Net income for the three months ended March 31, 2015	-	-	-	1,606.7	1,606.7
Issue of common shares upon vesting of share-based payment	410.3	-	(369.3)	-	41.0
Issue costs for subordinated convertible notes	-	(24.9)	-	-	(24.9)
Recognition of share-based payments	-	-	193.0	-	193.0
Balance at March 31, 2015	156,833.6	326.4	11,276.1	(44,360.6)	124,075.5

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 March 31, 2015 (unaudited)

(thousands of Canadian dollars)	Notes	3 months ended March 31,	
		2015	2014
		\$	\$
Cash flows from operating activities			
Net income		1,606.7	1,620.0
Items not affecting cash:			
Amortization		2,811.8	2,635.3
Change in mark-to-market value of lumber price derivatives		65.6	147.8
Change in reforestation obligations		1,332.6	1,099.8
Interest expense and accretion		1,268.1	1,501.1
Share based compensation		234.0	516.4
Other		2.2	-
		7,321.0	7,520.4
Change in:			
Trade and other receivables		1,579.6	3,854.7
Prepaid expenses and deposits		2,373.0	(83.9)
Inventories		(13,428.3)	(20,355.0)
Accounts payable, accrued liabilities and other payables		(569.4)	(3,144.5)
Environmental liabilities		(31.5)	(8.1)
Employee liabilities		256.7	950.1
Net cash used in operating activities		(2,498.9)	(11,266.3)
Cash flows from investing activities			
Additions to property, plant and equipment		(8,066.8)	(18,720.7)
Acquisition of subsidiary		-	(4,799.5)
Proceeds on disposal of assets		(2.2)	-
Net cash used in investing activities		(8,069.0)	(23,520.2)
Financing activities			
Financing fees		(50.4)	(5.0)
Repayment of long-term debt		(467.2)	(450.0)
Interest paid		(1,316.7)	(1,143.9)
Proceeds from construction loan		5,755.8	16,088.1
Proceeds from operating loans		6,854.6	9,509.8
Net cash provided from financing activities		10,776.1	23,999.0
Net increase (decrease) in cash		208.2	(10,787.5)
Cash, beginning of period		11,890.0	18,609.2
Cash, end of period	8	12,098.2	7,821.7

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

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

March 31, 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 development of a 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 March 31, 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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March 31, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

	Fair value hierarchy Level	March 31, 2015	December 31, 2014
		\$	\$
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	558.7	413.3
		558.7	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.

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 development of a power generation plant at Mackenzie, BC and the development of other opportunities in bioenergy and bioproducts which are complementary to the Company's harvesting and manufacturing operations.

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
3 months ended March 31, 2015				
Sales to external customers	85,262.9	-	-	85,262.9
Operating income (loss)	1,998.5	(6.0)	(915.2)	1,077.3
Loss on disposal of assets	(2.2)	-	-	(2.2)
Interest expense and accretion	-	-	(1,268.1)	(1,268.1)
Other expense	(85.3)	-	-	(85.3)
Foreign exchange gain	-	-	1,885.0	1,885.0
Net income (loss)	1,911.0	(6.0)	(298.3)	1,606.7
Amortization	2,796.3	-	15.5	2,811.8
Capital expenditures	2,478.4	5,636.5	2.4	8,117.3
Identifiable assets	163,502.2	132,749.2	15,289.3	311,540.7

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

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(Tabular amounts expressed in thousands except per share amounts)

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
3 months ended March 31, 2014				
Sales to external customers	67,211.2	-	-	67,211.2
Operating income (loss)	4,361.6	3.0	(1,558.1)	2,806.5
Gain on disposal of assets	13.6	-	-	13.6
Interest expense and accretion	-	-	(1,501.1)	(1,501.1)
Other income	61.0	-	-	61.0
Foreign exchange gain	-	-	240.0	240.0
Net income (loss)	4,436.2	3.0	(2,819.2)	1,620.0
Amortization	2,618.9	-	16.4	2,635.3
Capital expenditures	3,001.7	13,610.0	-	16,611.7
Identifiable assets	161,987.7	83,070.5	15,000.8	260,059.0

Revenues by geographic area were as follows:

	Three months ended March 31,	
	2015	2014
	\$	\$
United States	43,996.7	31,274.5
Canada	19,890.2	17,029.2
China	13,298.8	11,173.5
Japan	6,655.9	5,146.9
Other	1,421.3	2,587.1
	85,262.9	67,211.2

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

7. INCOME TAX

The Company has not recognized current income tax expense during the first 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

	March 31, 2015	December 31, 2014
	\$	\$
Cash	10,146.1	10,059.6
Cash - restricted	1,952.1	1,830.4
	12,098.2	11,890.0

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

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(Tabular amounts expressed in thousands except per share amounts)

9. INVENTORIES

	March 31, 2015	December 31, 2014
	\$	\$
Logs	20,514.9	11,885.7
Lumber	24,520.2	20,234.3
By-products	633.0	383.2
Supplies and other	4,931.7	4,668.3
	50,599.8	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 March 31, 2015 by \$850,982 (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 is 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 \$12.5 million of the Facility as at March 31, 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 \$6.2 million of the Revolving Loan as at March 31, 2015 (December 31, 2014 – \$5.3 million).

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

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(Tabular amounts expressed in thousands except per share amounts)

11. BORROWINGS

	March 31, 2015	December 31, 2014
	\$	\$
Non-current		
Long term debt (a)	158.2	304.3
Subordinated convertible notes (b)	11,639.4	11,581.5
Senior secured notes (c)	27,646.3	27,409.2
Construction loan (d)	73,044.1	67,966.9
	112,488.0	107,261.9
Current		
Current portion of long term debt (a)	1,822.2	2,256.0
Current portion of construction loan (d)	5,149.2	4,470.6
	6,971.4	6,726.6
Total borrowings	119,459.4	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 \$467,152 of the CAF loan during the three months ended March 31, 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 March 31, 2015 was \$469,210 (December 31, 2014 – \$581,923).

(b) Subordinated convertible notes

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

For the three months ended March 31, 2015, the Company recorded expenses that comprised accretion of \$44,687, amortization of issuance costs of \$13,611 and interest expense of \$207,123 (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.

For the three months ended March 31, 2015, the Company recorded expenses that comprised accretion of \$225,718, amortization of issuance costs of \$11,383 and interest expense of \$591,781 (Year ended December 31, 2014 – \$902,873, \$45,292 and \$2,432,877 respectively).

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

March 31, 2015 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

(d) Construction loan

Conifex Power Limited Partnership (“CP Partnership”), a wholly-owned subsidiary of the Company, 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 June 30, 2015 and convert into an amortized term loan having a term of five years 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.

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 March 31, 2015, CP Partnership had drawn \$78.2 million (December 31, 2014 – \$72.4 million) of the Construction Facility and issued letters of credit totaling \$6.8 million (December 31, 2014 – \$6.8 million) under the letter of credit facility provided under the Project Financing.

Interest for the three months ended March 31, 2015 of \$1,146,725 (Year ended December 31, 2014 – \$3,433,565) has been capitalized to the power capital work in progress.