

Condensed consolidated interim financial statements of

Conifex Timber Inc.

June 30, 2016
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheet
as at June 30, 2016 (unaudited)

(thousands of Canadian dollars)	Notes	As at June 30, 2016	As at December 31, 2015
		\$	\$
Assets			
<i>Current assets</i>			
Cash		22,558.3	9,902.9
Cash - restricted	8	8,538.4	8,545.7
Trade and other receivables		28,083.2	25,929.4
Prepaid expenses and deposits		13,704.7	11,108.2
Inventories	5	40,749.7	43,231.9
Assets held for sale		10.9	10.9
Current assets		113,645.2	98,729.0
Goodwill		3,310.5	3,310.5
Intangible assets		5,197.2	7,843.1
Property, plant and equipment		208,491.1	220,553.3
Long-term investments and other	6	21,727.9	1,661.7
Total assets		352,371.9	332,097.6
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		26,573.8	23,799.5
Current portion of reforestation obligations		2,012.4	2,773.9
Employee liabilities		2,793.4	1,791.0
Operating loans	7	8,259.5	18,326.9
Current portion of convertible notes	8	11,903.2	11,797.7
Current portion of mortgage	8	11,160.3	11,957.8
Current portion of long-term debt	8	4,069.3	4,353.3
Current liabilities		66,771.9	74,800.1
Reforestation obligations		8,707.6	6,091.4
Environmental liabilities		1,516.8	1,529.6
Other long-term liabilities		12,756.4	13,089.5
Payment-in-kind note	8	-	30,000.0
Long-term debt	8	92,046.3	100,228.3
Non-current liabilities		115,027.1	150,938.8
Total liabilities		181,799.0	225,738.9
Equity			
Share capital		158,176.3	157,835.6
Conversion option on convertible notes		326.4	326.4
Contributed surplus		11,647.4	11,484.6
Retained earnings (deficit)		422.8	(63,287.9)
Total equity		170,572.9	106,358.7
Total liabilities and equity		352,371.9	332,097.6

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

Conifex Timber Inc.

Condensed consolidated statement of net income (loss) and comprehensive income (loss)
period ended June 30, 2016 (unaudited)

(thousands of Canadian dollars)	Notes	3 months ended June 30,		6 months ended June 30,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue		103,668.6	81,837.1	203,183.0	167,100.0
Costs and expenses					
Cost of goods sold		78,266.8	74,025.3	156,695.5	141,450.6
Freight and distribution costs		15,264.1	12,967.5	29,586.0	25,979.0
Export taxes		-	923.9	-	923.9
Selling, general and administrative		5,020.0	3,746.8	8,752.1	7,495.7
		98,550.9	91,663.5	195,033.6	175,849.2
Operating income (loss)		5,117.7	(9,826.4)	8,149.4	(8,749.2)
Gain (loss) on disposal of assets	6, 8(c)	19,016.6	-	47,984.8	(2.2)
Interest expense and accretion		(2,269.2)	(2,099.2)	(4,815.3)	(3,367.3)
Other income (expense)		258.7	(57.0)	391.1	(142.3)
Foreign exchange gain (loss)		(229.1)	(1,057.1)	(1,328.4)	828.0
Gain on revaluation	6, 9	13,329.1	-	13,329.1	-
		30,106.1	(3,213.3)	55,561.3	(2,683.8)
Net income (loss) and comprehensive income (loss) for the period		35,223.8	(13,039.7)	63,710.7	(11,433.0)
Net income (loss) per common share: (in dollars)					
Basic		1.67	(0.62)	3.01	(0.55)
Diluted		1.54	(0.62)	2.78	(0.55)

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Conifex Timber Inc.

Condensed consolidated statement of changes in equity
period ended June 30, 2016 (unaudited)

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Contributed surplus	Retained earnings (deficit)	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2014	156,423.3	351.3	11,452.4	(45,967.3)	122,259.7
Net loss for the six months ended June 30, 2015	-	-	-	(11,433.0)	(11,433.0)
Issue of common shares upon vesting of share-based payment	559.2	-	(503.3)	-	55.9
Issue costs for subordinated convertible notes	-	(24.9)	-	-	(24.9)
Recognition of share-based payments	-	-	345.1	-	345.1
Balance at June 30, 2015	156,982.5	326.4	11,294.2	(57,400.3)	111,202.8
Net loss for the period July 1, 2015 to December 31, 2015	-	-	-	(5,887.6)	(5,887.6)
Issue of common shares	675.0	-	-	-	675.0
Issue of common shares upon vesting of share-based payment	178.1	-	(169.2)	-	8.9
Recognition of share-based payments	-	-	359.6	-	359.6
Balance at December 31, 2015	157,835.6	326.4	11,484.6	(63,287.9)	106,358.7
Net income for the six months ended June 30, 2016	-	-	-	63,710.7	63,710.7
Issue of common shares upon vesting of share-based payment	340.7	-	(320.7)	-	20.0
Recognition of share-based payments	-	-	483.5	-	483.5
Balance at June 30, 2016	158,176.3	326.4	11,647.4	422.8	170,572.9

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 June 30, 2016 (unaudited)

(thousands of Canadian dollars)	3 months ended June 30,		6 months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash flows from operating activities				
Net income (loss)	35,223.8	(13,039.7)	63,710.7	(11,433.0)
Items not affecting cash:				
Amortization	3,870.9	4,176.6	8,653.1	6,988.4
Change in mark-to-market value of lumber price derivative	(201.0)	(159.3)	(167.3)	(93.7)
Change in reforestation obligations	(202.3)	(787.3)	1,518.4	545.3
Interest expense and accretion	2,269.2	2,099.2	4,815.3	3,367.3
Share based compensation	308.0	167.0	503.4	401.0
LDA accretion	(156.8)	-	(313.0)	-
Gain (loss) on disposal of assets	(19,016.6)	-	(47,984.8)	2.2
Gain on revaluation	(13,329.1)	-	(13,329.1)	-
	8,766.1	(7,543.5)	17,406.7	(222.5)
Change in:				
Trade and other receivables	(1,543.7)	5,035.8	(1,782.7)	6,615.4
Prepaid expenses and deposits	(2,418.8)	(4,046.5)	(2,809.6)	(1,673.5)
Inventories	12,689.4	14,644.6	2,482.2	1,216.3
Accounts payable, accrued liabilities and other payables	(299.4)	(146.3)	2,364.3	(715.7)
Environmental liabilities	(0.8)	(25.2)	(12.8)	(56.7)
Employee liabilities	763.1	52.0	1,002.5	308.7
Net cash provided from operating activities	17,955.9	7,970.9	18,650.6	5,472.0
Cash flows from investing activities				
Additions to property, plant and equipment	(1,586.1)	(9,695.5)	(2,603.3)	(17,649.6)
Additions to long-term investments	-	-	(20.9)	-
Proceeds on disposal of assets, net	20,120.0	-	20,120.0	(2.2)
Net cash provided from (used in) investing activities	18,533.9	(9,695.5)	17,495.8	(17,651.8)
Financing activities				
Financing fees	(82.5)	(36.7)	(215.7)	(87.1)
Repayment of long-term debt	(5,806.5)	(575.4)	(5,995.7)	(1,155.3)
Interest paid	(1,357.8)	(1,077.9)	(4,275.0)	(2,394.6)
Proceeds of construction loan	-	3,806.8	-	9,562.6
Proceeds (repayment) of operating loans	(15,498.8)	(1,520.1)	(10,067.4)	5,334.5
Repayment of term loan	(438.0)	-	(3,156.4)	-
Proceeds of long-term debt	-	-	211.9	-
Net cash provided from (used in) financing activities	(23,183.6)	596.7	(23,498.3)	11,260.1
Net increase (decrease) in cash	13,306.2	(1,127.9)	12,648.1	(919.7)
Cash, beginning of period	17,790.5	12,098.2	18,448.6	11,890.0
Cash, end of period	31,096.7	10,970.3	31,096.7	10,970.3

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

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

June 30, 2016 (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, Canadian, Chinese, 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 PRESENTATION

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, 2015, 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, 2015 annual consolidated financial statements.

4. 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.

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(Tabular amounts expressed in thousands except per share amounts)

5. INVENTORIES

	June 30, 2016	December 31, 2015
	\$	\$
Lumber	23,451.2	22,510.8
Logs	11,308.6	15,408.7
Supplies and other	5,577.0	5,208.0
By-products	412.9	104.4
	40,749.7	43,231.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at June 30, 2016 by \$267,471 (December 31, 2015 – \$652,638). Write-downs are included in cost of goods sold when incurred.

6. LONG-TERM INVESTMENTS AND OTHER

	June 30, 2016	December 31, 2015
	\$	\$
Joint venture investment	20,000.0	-
Other investments	577.7	556.8
Deposits	1,150.2	1,104.9
	21,727.9	1,661.7

On April 12, 2016, the Company entered into a timber harvesting cooperation agreement with a regional lumber manufacturer (the "Harvesting Partner") to conduct coordinated joint timber harvesting operations. Pursuant to the agreement, the Harvesting Partner paid \$20 million to acquire 50% of the issued and outstanding shares of a Conifex subsidiary which holds a forest licence with an annual timber harvest of 300,000 m³.

The sale of the shares gave rise to a \$19.02 million gain. As a result of non-capital loss carry forwards from previous taxation years, no current income tax arises on the shares sale in the year.

The remaining 50% interest in the former subsidiary is classified as a joint venture and is accounted for using the equity method of accounting. As a result of a loss of control in the former Conifex subsidiary, the investment in the joint venture was revalued to its fair value amount of \$20 million, resulting in a gain on the revaluation of \$19.16 million on the consolidated statement of net income and comprehensive income. The gain on the revaluation has been netted with the impairment charge against certain property, plant and equipment (note 9).

7. OPERATING LOANS

\$35 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.

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In January 2016, the Company completed the renewal and amendment of the Facility for a further three-year term. The amendment increases the borrowing availability to \$35 million and extends the maturity date of the Facility to January 29, 2019.

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 not drawn against the Facility as at June 30, 2016 (December 31, 2015 – \$11,050,000).

Demand revolving loan and demand revolving line

Lignum Forest Products LLP (“Lignum”), a wholly-owned subsidiary of the Company, has a \$7.5 million demand revolving loan, a demand revolving line to a limit of \$975,000 for the purchase of forward exchange contracts, and a \$1 million manufacturer’s advance facility to fulfill confirmed sales contracts for supply of lumber to foreign buyers (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 \$6,759,499 of the Revolving Loan as at June 30, 2016 (December 31, 2015 – \$5,776,868).

\$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 8(d)).

As of June 30, 2016, CP Partnership has drawn \$1,500,000 of the revolving facility (December 31, 2015 - \$1,500,000).

8. BORROWINGS

	June 30, 2016	December 31, 2015
	\$	\$
Non-current		
Long term debt (a)	-	45.7
Senior secured notes (b)	19,131.9	24,357.7
Payment-in-kind note (c)	-	30,000.0
Term loan (d)	72,914.4	75,824.9
	92,046.3	130,228.3
Current		
Subordinated convertible notes (e)	11,903.2	11,797.7
Mortgage (f)	11,160.3	11,957.8
Current portion of long-term debt and term loan	4,069.3	4,353.3
	27,132.8	28,108.8
Total borrowings	119,179.1	158,337.1

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

Long-term debt included a secured loan facility provided under the Community Adjustment Fund (“CAF”) loan program sponsored by the Northern Development Initiative Trust. The CAF loan carried a fixed interest rate of 3.75% and was repayable by 20 quarterly payments of \$485,700 commencing June 2011. The loan was secured by a General Security Agreement (excluding inventory and receivables) and a mortgage against certain properties. The Company repaid the remaining balance of \$83,296 during the three months ended March 31, 2016 (Year ended December 31, 2015 – \$1,895,051).

Long-term debt also includes three capital leases for mobile equipment. The capital leases expire in 2016 and 2017 and the principal outstanding at June 30, 2016 is \$220,338 (December 31, 2015 – \$220,825).

(b) 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.

The Company redeemed \$4,000,000 of the issued notes on August 4, 2015 and an additional \$5,700,000 on April 12, 2016.

For the three months ended June 30, 2016, the Company recorded expenses that comprised accretion of \$225,718, amortization of issuance costs of \$11,383 and interest expense of \$418,630 (year ended December 31, 2015 – \$902,873, \$45,534 and \$2,268,493 respectively).

(c) 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 had a term of five years and had a maturity date of August 4, 2020. The PIK Note was non-interest bearing from the issue date until August 3, 2017.

On February 12, 2016, the holder of the PIK Note exercised its option to convert the PIK Note into ownership of the wholly-owned subsidiary which holds a forest license with 200,000 m³ of annual cut (the “Forest Licence”). The redemption of the PIK Note resulted in a gain on the sale of the Forest Licence of \$28.97 million. As a result of a tax election which was filed in 2015 to increase the tax basis of the Forest Licence, no current income tax arises on the PIK Note redemption in the year.

(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 includes a development and construction loan facility of \$82 million (the “Construction Facility”). The Construction Facility comprises floating rate and fixed rate tranches, both of which mature on July 31, 2015 (amended from June 30, 2015). On July 30, 2015, CP Partnership converted the Construction Facility into an amortized term loan (the “Term Loan”) that matures on December 1, 2019. The balance of the Project Financing is in the form of 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.

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

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(Tabular amounts expressed in thousands except per share amounts)

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

As at June 30, 2016, CP Partnership issued letters of credit totaling \$18,750,000 (December 31, 2015 - \$18,750,000) under the letter of credit facility provided under the Project Financing.

For the three months ended June 30, 2016, CP Partnership recorded interest expense of \$1,264,141 and financing expense of \$8,191 (year ended December 31, 2015 – \$3,510,166 and \$13,862 respectively). CP Partnership has repaid \$438,000 of the floating rate tranche during the quarter (year ended December 31, 2015 – \$1,799,000 of the floating rate tranche and \$281,111 of the fixed rate tranche).

As at June 30, 2016, CP Partnership held \$8,538,425 of cash in restricted accounts (December 31, 2015 – \$8,545,653). Funds from restricted accounts are distributed in accordance with the terms of the Project Financing.

(e) 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 June 30, 2016, the Company recorded expenses that comprised accretion of \$40,806, amortization of issuance costs of \$11,968 and interest expense of \$210,682 (year ended December 31, 2015 – \$167,105, \$49,128 and \$840,000 respectively).

(f) Mortgage

On August 6, 2015, the Company acquired idled sawmill assets located in El Dorado, Arkansas, United States (the "El Dorado Sawmill Assets"). 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 June 30, 2016, interest of \$158,515 (year ended December 31, 2015 - \$277,764) has been capitalized to the El Dorado Sawmill Assets.

9. REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

The Company reviews its property, plant and equipment 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 at the lowest levels for which separately identifiable cash flows are largely independent of the cash flows of other assets or groups of assets (cash-generating units).

During the quarter, the Company concluded that a change in circumstances arising from entry into the joint venture agreement, combined with increased uncertainty around the successful completion of a negotiated softwood lumber trade agreement with the U.S. prior to the October 2016 expiry of the one-year standstill period which prevents the U.S. from initiating new trade actions against Canada, required assessment of impairment for certain currently idled assets in the lumber segment. As a result, the Company reviewed the property, plant and equipment for impairment and recorded a \$5.8 million impairment charge on the consolidated statement of net income and comprehensive income. The impairment charge has been netted against the gain arising on the revaluation of a joint venture investment (note 6).

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(Tabular amounts expressed in thousands except per share amounts)

10. INCOME TAX

The Company has not recognized current income tax expense during the second quarter of 2016 as the Company had non-capital loss carry forwards totalling approximately \$32.1 million as at December 31, 2015. 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.

11. 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, 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.

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
3 months ended June 30, 2016				
Sales to external customers	98,660.0	5,008.6	-	103,668.6
Operating income (loss)	5,411.4	1,654.4	(1,948.1)	5,117.7
Gain on disposal of assets	19,016.6	-	-	19,016.6
Gain on revaluation	13,329.1	-	-	13,329.1
Interest expense and accretion	-	(1,272.3)	(996.9)	(2,269.2)
Other income	258.7	-	-	258.7
Foreign exchange loss	-	-	(229.1)	(229.1)
Net income (loss)	<u>38,015.8</u>	<u>382.1</u>	<u>(3,174.1)</u>	<u>35,223.8</u>
Amortization	3,093.0	763.5	14.4	3,870.9
Capital expenditures	1,552.9	(5.9)	(88.2)	1,458.8
Identifiable assets	<u>191,097.8</u>	<u>127,919.6</u>	<u>33,354.5</u>	<u>352,371.9</u>
3 months ended June 30, 2015				
Sales to external customers	79,231.9	2,605.2	-	81,837.1
Operating loss	(8,066.2)	(510.6)	(1,249.6)	(9,826.4)
Interest expense and accretion	-	(811.0)	(1,288.2)	(2,099.2)
Other expense	(57.0)	-	-	(57.0)
Foreign exchange loss	-	-	(1,057.1)	(1,057.1)
Net loss	<u>(8,123.2)</u>	<u>(1,321.6)</u>	<u>(3,594.9)</u>	<u>(13,039.7)</u>
Amortization	3,185.5	974.6	16.5	4,176.6
Capital expenditures	946.8	6,756.7	30.4	7,733.9
Identifiable assets	<u>142,813.4</u>	<u>142,145.9</u>	<u>13,555.8</u>	<u>298,515.1</u>

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(Tabular amounts expressed in thousands except per share amounts)

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
6 months ended June 30, 2016				
Sales to external customers	190,456.4	12,726.6	-	203,183.0
Operating income (loss)	6,582.9	4,285.4	(2,718.9)	8,149.4
Gain on disposal of assets	47,984.8	-	-	47,984.8
Gain on revaluation	13,329.1			13,329.1
Interest expense and accretion	-	(2,583.6)	(2,231.7)	(4,815.3)
Other income	391.1	-	-	391.1
Foreign exchange loss	-	-	(1,328.4)	(1,328.4)
Net income (loss)	68,287.9	1,701.8	(6,279.0)	63,710.7
Amortization	6,283.1	2,341.8	28.2	8,653.1
Capital expenditures	2,082.4	122.3	208.6	2,413.3
Identifiable assets	191,097.8	127,919.6	33,354.5	352,371.9
6 months ended June 30, 2015				
Sales to external customers	164,494.8	2,605.2	-	167,100.0
Operating loss	(6,067.8)	(516.6)	(2,164.8)	(8,749.2)
Loss on disposal of assets	(2.2)	-	-	(2.2)
Interest expense and accretion	-	(811.0)	(2,556.3)	(3,367.3)
Other expense	(142.3)	-	-	(142.3)
Foreign exchange gain	-	-	828.0	828.0
Net loss	(6,212.3)	(1,327.6)	(3,893.1)	(11,433.0)
Amortization	5,981.8	974.6	32.0	6,988.4
Capital expenditures	3,425.1	12,393.2	32.8	15,851.1
Identifiable assets	142,813.4	142,145.9	13,555.8	298,515.1

Revenues by geographic area were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2015	2015	2015
	\$	\$	\$	\$
United States	61,801.5	37,263.9	117,726.0	81,260.6
Canada	22,068.8	20,945.6	46,856.1	40,835.8
China	10,016.8	15,518.2	18,160.1	28,817.0
Japan	6,827.4	6,434.5	14,739.5	13,090.4
Other	2,954.1	1,674.9	5,701.3	3,096.2
	103,668.6	81,837.1	203,183.0	167,100.0

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

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

June 30, 2016 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

12. 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 June 30, 2016 and December 31, 2015, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

	Fair value hierarchy Level	June 30, 2016	December 31, 2015
		\$	\$
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	1,218.2	872.3
		1,218.2	872.3

13. RECLASSIFICATION OF COMPARATIVE AMOUNTS

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