

Condensed consolidated interim financial statements of

Conifex Timber Inc.

June 30, 2018
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at June 30, 2018 (unaudited)

(thousands of Canadian dollars)	Notes	As at June 30, 2018	As at December 31, 2017
		\$	\$
Assets			
<i>Current assets</i>			
Cash		23,958.5	16,860.4
Cash - restricted	8	9,094.3	9,280.8
Trade and other receivables		40,994.3	38,235.4
Prepaid expenses and deposits		17,096.1	11,644.9
Inventories	5	57,112.8	61,904.9
Current assets		148,256.0	137,926.4
Goodwill		3,310.5	3,310.5
Intangible assets		5,289.1	5,232.4
Property, plant and equipment	6	277,128.0	272,950.0
Long-term investments and other	14	25,683.7	25,398.8
Deferred income tax assets	11	241.0	-
Total assets		459,908.3	444,818.1
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		36,733.1	34,813.2
Current portion of reforestation obligations		3,609.0	5,286.6
Employee liabilities		3,237.1	1,915.1
Operating loan	7	1,600.0	1,600.0
Current portion of long-term debt	8	5,651.3	5,874.9
Current liabilities		50,830.5	49,489.8
Reforestation obligations		10,499.1	7,785.2
Environmental liabilities		1,337.7	1,339.1
Other long-term liabilities		10,805.3	11,136.5
Long-term debt	8	65,203.8	68,137.5
Revolving credit facility	9	90,740.9	94,180.9
Deferred income tax liabilities	11	7,558.1	3,105.5
Non-current liabilities		186,144.9	185,684.7
Total liabilities		236,975.4	235,174.5
Equity			
Share capital	10	174,525.2	174,282.0
Contributed surplus		11,730.6	11,444.6
Retained earnings		35,630.7	23,917.0
Accumulated other comprehensive income		1,046.4	-
Total equity		222,932.9	209,643.6
Total liabilities and equity		459,908.3	444,818.1

Subsequent event (note 15)

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

Conifex Timber Inc.

Condensed consolidated statements of net income and comprehensive income
period ended June 30, 2018 (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenue		200,305.3	116,447.6	331,130.8	216,762.4
Costs and expenses					
Cost of goods sold		152,416.2	85,462.0	252,617.9	166,821.1
Freight and distribution costs		18,336.1	15,238.0	30,515.3	28,041.3
Softwood lumber duties	14	8,210.9	4,573.4	14,494.7	4,573.4
Selling, general and administrative		5,384.7	4,786.3	10,529.5	9,439.1
		184,347.9	110,059.7	308,157.4	208,874.9
Operating income		15,957.4	6,387.9	22,973.4	7,887.5
Gain (loss) on disposal of assets		7.5	(6.0)	7.5	(14.0)
Interest expense and accretion		(2,571.9)	(1,709.0)	(4,196.0)	(4,368.8)
Gain (loss) on derivative financial instruments		(1,313.8)	368.9	(3,608.2)	347.3
Foreign exchange gain (loss)		644.9	(801.8)	748.6	(1,025.7)
		(3,233.3)	(2,147.9)	(7,048.1)	(5,061.2)
Income before taxes		12,724.1	4,240.0	15,925.3	2,826.3
Income tax expense:	11				
Current		-	-	-	-
Deferred		3,551.5	-	4,211.6	-
		3,551.5	-	4,211.6	-
Net income for the period		9,172.6	4,240.0	11,713.7	2,826.3
Other comprehensive income					
Foreign exchange translation of foreign operations, net of tax		1,046.4	-	1,046.4	-
Other comprehensive income, net of tax		1,046.4	-	1,046.4	-
Total comprehensive income for the period		10,219.0	4,240.0	12,760.1	2,826.3
Net income per share, basic and diluted (in dollars)		0.35	0.16	0.44	0.12

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

Conifex Timber Inc.

Condensed consolidated statements of changes in equity
period ended June 30, 2018 (unaudited)

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2016	158,601.8	326.4	11,634.7	6,945.6	-	177,508.5
Net income for the six months ended June 30, 2017	-	-	-	2,826.3	-	2,826.3
Cash settlement of subordinated convertible notes	-	(326.4)	326.4	-	-	-
Public offering and private placement of common shares, net of issue costs	14,192.5	-	-	-	-	14,192.5
Issue of common shares upon vesting of share-based payment	1,427.9	-	(1,373.0)	-	-	54.9
Recognition of share-based payments	-	-	375.9	-	-	375.9
Balance at June 30, 2017	174,222.2	-	10,964.0	9,771.9	-	194,958.1
Net income for the period from July 1, 2017 to December 31, 2017	-	-	-	14,145.1	-	14,145.1
Public offering and private placement of common shares, net of issue costs	8.9	-	-	-	-	8.9
Issue of common shares upon vesting of share-based payment	50.9	-	(64.9)	-	-	(14.0)
Recognition of share-based payments	-	-	545.5	-	-	545.5
Balance at December 31, 2017	174,282.0	-	11,444.6	23,917.0	-	209,643.6
Net income for the six months ended June 30, 2018	-	-	-	11,713.7	-	11,713.7
Issue costs related to public offering and private placement of common shares	(1.5)	-	-	-	-	(1.5)
Issue of common shares upon vesting of share-based payment	244.7	-	(223.4)	-	-	21.3
Recognition of share-based payments	-	-	509.4	-	-	509.4
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	1,046.4	1,046.4
Balance at June 30, 2018	174,525.2	-	11,730.6	35,630.7	1,046.4	222,932.9

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

Conifex Timber Inc.

Condensed consolidated statements of cash flows
as at June 30, 2018 (unaudited)

(thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash flows from operating activities				
Net income	9,172.6	4,240.0	11,713.7	2,826.3
Items not affecting cash:				
Amortization and depreciation	5,520.8	4,312.0	9,973.2	9,202.6
Change in mark-to-market value of lumber price derivatives	(911.2)	(20.9)	(259.4)	24.1
Change in reforestation obligations	(1,101.0)	(963.2)	1,036.4	815.0
Interest expense and accretion	2,571.9	1,709.0	4,196.0	4,368.8
Income tax expense	3,551.5	-	4,211.6	-
Share-based compensation	254.8	152.4	530.7	430.7
LDA accretion	(156.8)	(156.9)	(313.7)	(313.4)
Loss (gain) on disposal of assets	(7.5)	6.0	(7.5)	14.0
	18,895.1	9,278.4	31,081.0	17,368.1
Change in:				
Trade and other receivables	(2,593.4)	2,642.8	(2,412.0)	788.7
Prepaid expenses and deposits	(4,890.4)	(3,249.5)	(3,821.7)	(1,847.2)
Inventories	21,183.0	17,512.7	4,942.8	5,124.6
Accounts payable, accrued liabilities and other payables	2,571.1	(1,062.6)	7,027.4	(278.2)
Environmental liabilities	(10.1)	(6.0)	(1.4)	(28.9)
Employee liabilities	1,050.0	842.9	1,309.4	239.7
Net cash provided from operating activities	36,205.3	25,958.7	38,125.5	21,366.8
Cash flows from investing activities				
Additions to property, plant and equipment	(9,041.1)	(13,665.7)	(17,836.5)	(41,306.9)
Proceeds on disposal of assets, net	55.1	131.3	55.1	183.3
Net cash used in investing activities	(8,986.0)	(13,534.4)	(17,781.4)	(41,123.6)
Cash flows from financing activities				
Proceeds (repayment) of revolving credit facility	(9,280.7)	640.0	(3,648.5)	83,080.9
Proceeds (costs) of public offering and private placement	-	(5.6)	(1.5)	14,192.5
Proceeds (repayment) of capital leases	(199.9)	332.4	(628.4)	540.1
Repayment of term loan	(525.2)	(976.2)	(2,774.4)	(2,824.4)
Repayment of mortgage	-	-	-	(10,440.8)
Repayment of senior secured notes	-	-	-	(20,300.0)
Repayment of operating loans	-	-	-	(26,598.7)
Financing fees	(2,118.5)	(3.2)	(2,118.5)	(1,777.7)
Interest paid	(1,993.9)	(1,600.0)	(4,266.3)	(3,960.5)
Net cash provided from (used in) financing activities	(14,118.2)	(1,612.6)	(13,437.6)	31,911.4
Net increase in cash	13,101.1	10,811.7	6,906.5	12,154.6
Foreign exchange effect on cash	5.1	-	5.1	-
Cash, beginning of period	19,946.6	24,302.5	26,141.2	22,959.6
Cash, end of period	33,052.8	35,114.2	33,052.8	35,114.2

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

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

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

1. NATURE OF OPERATIONS

The primary business of Conifex in its lumber segment includes timber harvesting, reforestation, forest management, 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, British Columbia ("BC"), Canada.

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, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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, 2017 annual consolidated financial statements.

(a) Foreign currency translation

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

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.

Foreign operations with a functional currency that differs from the Company's presentation currency have their assets and liabilities translated using the rate of exchange prevailing at the reporting date. Revenues and expenses are measured at average rates during the period. Foreign exchange differences are recognized in other comprehensive income.

(b) Changes in accounting standards

Effective January 1, 2018, the Company has adopted IFRS 15, *Revenue from Contracts with Customers*, using the full retrospective method. The new standard for revenue replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and the related interpretations. The standard provides a new framework to determine the timing of revenue recognition and the measurement of revenue. The adoption of this standard had no significant impact on the Company's condensed consolidated interim financial statements.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

The Company has adopted IFRS 9, *Financial Instruments* effective January 1, 2018. IFRS 9 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard includes amended guidance for the classification and measurement of financial assets. 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. The adoption of IFRS 9 had no significant impact on the Company's condensed consolidated interim financial statements.

(c) Accounting standard issued and not yet adopted

In January 2016, the International Accounting Standards Board 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 expects the consolidated financial statements will be impacted by the recognition of new assets and liabilities for the Company's operating leases. The Company is still in the process of assessing the quantitative impact of adoption of this new standard on the Company's consolidated financial statements. As of December 31, 2017, the future aggregate minimum lease payments under non-cancellable operating leases were \$7.35 million.

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.

5. INVENTORIES

	June 30, 2018	December 31, 2017
	\$	\$
Logs	7,605.0	22,196.2
Lumber	40,398.2	32,795.3
Supplies	8,527.4	6,492.1
By-products	582.2	421.3
	57,112.8	61,904.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory was not written down at June 30, 2018 (December 31, 2017 – \$847,031). Write-downs are included in cost of goods sold when incurred.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

(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
	\$	\$	\$	\$	\$	\$
<i>Cost</i>						
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
Net additions	-	89,779.4	(77,701.8)	43.2	951.6	13,072.4
Disposals	-	(151.1)	-	-	-	(151.1)
Effect of foreign exchange revaluation	(5.5)	(39.6)	1,101.4	-	-	1,056.3
At June 30, 2018	5,458.5	234,463.0	3,966.7	128,695.3	951.6	373,535.1
<i>Accumulated depreciation</i>						
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)
Depreciation charge for the year	-	(7,262.5)	-	(2,606.2)	-	(9,868.7)
Disposals	-	103.5	-	-	-	103.5
Effect of foreign exchange revaluation	-	(34.4)	-	-	-	(34.4)
At June 30, 2018	-	(79,073.5)	-	(17,333.6)	-	(96,407.1)
<i>Carrying amount</i>						
At December 31, 2017	5,464.0	72,994.2	80,567.1	113,924.7	-	272,950.0
At June 30, 2018	5,458.5	155,389.5	3,966.7	111,361.7	951.6	277,128.0

7. OPERATING LOAN

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(b)).

As of June 30, 2018, CP Partnership has drawn \$1.60 million of the revolving operating facility (December 31, 2017 – \$1.60 million).

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

8. BORROWINGS

	June 30, 2018	December 31, 2017
	\$	\$
Non-current		
Capital leases (a)	5,232.9	5,635.2
Term loan (b)	59,970.9	62,502.3
	65,203.8	68,137.5
Current		
Current portion of capital leases (a)	1,591.3	1,571.9
Current portion of term loan (b)	4,060.0	4,303.0
	5,651.3	5,874.9
Total borrowings	70,855.1	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 June 30, 2018 is \$6.82 million (December 31, 2017 – \$7.21 million).

(b) 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 (“LDA”) 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 June 30, 2018, CP Partnership has issued letters of credit totaling \$12.74 million (December 31, 2017 – \$12.74 million) under the letter of credit facility provided under the Project Financing.

For the quarter ended June 30, 2018, CP Partnership recorded interest and financing expense of \$1.07 million (year ended December 31, 2017 – \$4.68 million). CP Partnership repaid \$0.08 million of the floating rate tranche and \$0.45 million of the fixed rate tranche during the quarter (year ended December 31, 2017 – \$4.53 million and \$1.28 million respectively).

As at June 30, 2018, CP Partnership held \$9.09 million of cash in restricted accounts (December 31, 2017 – \$9.28 million). Funds from restricted accounts are distributed in accordance with the terms of the Project Financing.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

9. 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 June 30, 2018, the Company has drawn \$92.24 million of the Revolving Facility (December 31, 2017 – \$95.89 million) and deferred financing costs netted against the Revolving Facility was \$1.50 million (December 31, 2017 – \$1.71 million).

Subsequent to the end of the quarter, the Revolving Facility balance was fully repaid and retired (note 15(b)).

10. SHARE CAPITAL

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount \$
Balance at December 31, 2016	21,203	158,601.8
Public offering and private placement of common shares, net of issue costs	5,050	14,192.5
Shares vested under share-based compensation plan during the six months ended June 30, 2017	178	1,427.9
Balance at June 30, 2017	26,431	174,222.2
Public offering and private placement of common shares, net of issue costs	-	8.9
Shares vested under share-based compensation plan during the period from July 1, 2017 to December 31 2017	7	50.9
Balance at December 31, 2017	26,438	174,282.0
Issue costs related to public offering and private placement of common shares	-	(1.5)
Shares vested under share-based compensation plan during the six months ended June 30, 2018	32	244.7
Balance at June 30, 2018	26,470	174,525.2

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

11. INCOME TAX

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Current	-	-	-	-
Deferred	3,551.4	-	4,211.5	-
	3,551.4	-	4,211.5	-

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Income before taxes	12,724.1	4,240.0	15,925.3	2,826.3
Income tax expense at corporation rate of 27.0% (2016 – 26.0%)	3,435.5	1,102.4	4,299.8	734.8
Non-deductible (non-taxable) items for tax purposes	69.9	93.5	(13.0)	186.9
Effect on deferred balances due to tax rate changes	-	-	-	(33.1)
Change in deferred tax assets not recognized	47.8	(1,205.1)	(52.9)	(906.9)
Rate differentials between jurisdictions	(4.4)	-	(4.4)	-
Other	2.7	9.2	(17.9)	18.3
Total income tax expense	3,551.5	-	4,211.6	-

Beginning 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.

12. 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 Forest Products LLP ("Lignum"), and Navcor Transportation Services Inc. ("Navcor"). CFMI, Lignum, and Navcor generate additional revenue from third party transactions.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

- 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.

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
Three months ended June 30, 2018				
Sales to external customers	195,223.2	5,082.1	-	200,305.3
Operating income (loss)	16,134.2	1,359.2	(1,536.0)	15,957.4
Gain on disposal of assets	7.5	-	-	7.5
Interest expense and accretion	-	(1,075.0)	(1,496.9)	(2,571.9)
Loss on derivative financial instruments	(1,313.8)	-	-	(1,313.8)
Foreign exchange gain (loss)	-	(3.6)	648.5	644.9
Income tax expense	-	-	(3,551.5)	(3,551.5)
Net income (loss)	14,827.9	280.6	(5,935.9)	9,172.6
Amortization and depreciation	4,468.2	1,014.7	37.9	5,520.8
Capital expenditures	4,567.6	1,030.2	66.8	5,664.6
Identifiable assets	304,872.1	126,510.9	28,525.3	459,908.3
Three months ended June 30, 2017				
Sales to external customers	111,690.8	4,756.8	-	116,447.6
Operating income (loss)	7,126.5	868.8	(1,607.4)	6,387.9
Loss on disposal of assets	(6.0)	-	-	(6.0)
Interest expense and accretion	-	(1,171.4)	(537.6)	(1,709.0)
Other income	368.9	-	-	368.9
Foreign exchange loss	-	(2.6)	(799.2)	(801.8)
Net income (loss)	7,489.4	(305.2)	(2,944.2)	4,240.0
Amortization and depreciation	3,308.6	975.4	28.0	4,312.0
Capital expenditures	13,489.8	-	175.9	13,665.7
Identifiable assets	241,214.4	133,481.4	31,779.9	406,475.7

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
Six months ended June 30, 2018				
Sales to external customers	318,515.3	12,615.5	-	331,130.8
Operating income (loss)	22,858.7	3,375.5	(3,260.8)	22,973.4
Gain on disposal of assets	7.5	-	-	7.5
Interest expense and accretion	-	(2,151.8)	(2,044.2)	(4,196.0)
Loss on derivative financial instruments	(3,608.2)	-	-	(3,608.2)
Foreign exchange gain (loss)	-	(4.0)	752.6	748.6
Income tax expense	-	-	(4,211.6)	(4,211.6)
Net income (loss)	19,258.0	1,219.7	(8,764.0)	11,713.7
Amortization and depreciation	7,278.3	2,612.3	82.7	9,973.3
Capital expenditures	12,396.1	1,073.7	87.9	13,557.7
Identifiable assets	304,872.1	126,510.9	28,525.3	459,908.3
Six months ended June 30, 2017				
Sales to external customers	205,179.1	11,583.3	-	216,762.4
Operating income (loss)	8,950.4	2,125.1	(3,188.0)	7,887.5
Loss on disposal of assets	(14.0)	-	-	(14.0)
Interest expense and accretion	-	(2,368.1)	(2,000.7)	(4,368.8)
Other income	347.3	-	-	347.3
Foreign exchange loss	-	(3.9)	(1,021.8)	(1,025.7)
Net income (loss)	9,283.7	(246.9)	(6,210.5)	2,826.3
Amortization and depreciation	6,574.5	2,571.5	56.6	9,202.6
Capital expenditures	40,868.0	73.0	190.7	41,131.7
Identifiable assets	241,214.4	133,481.4	31,779.9	406,475.7

Revenues by geographic area were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
United States	126,980.6	66,348.7	203,128.5	126,287.5
Canada	40,946.2	25,620.2	77,459.0	46,266.7
Japan	16,570.1	8,845.5	24,979.2	15,902.1
China	11,388.8	11,458.5	19,125.5	21,108.9
Other	4,419.6	4,174.7	6,438.6	7,197.2
	200,305.3	116,447.6	331,130.8	216,762.4

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

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

13. FINANCIAL INSTRUMENTS

The Company's financial assets, with the exception of certain derivative instruments, and financial liabilities are measured at amortized cost subsequent to initial recognition. Cash and cash equivalents and derivative instruments are measured at fair value through profit and loss.

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 measured at fair value at June 30, 2018 and December 31, 2017, and shows the level within the fair value hierarchy in which they have been classified:

	Fair value hierarchy level	June 30, 2018	December 31, 2017
		\$	\$
Financial assets			
Derivative financial instruments	Level 2	1,118.5	1,665.9
		1,118.5	1,665.9

14. 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 ("CVD") and antidumping ("ADD") duties against Canadian imports of softwood lumber. CVD and ADD duties have been imposed against Canadian softwood lumber imports beginning in 2017. See note 27 of the Company's 2017 annual consolidated financial statements filed on SEDAR for additional information.

In the second quarter of 2018, the Company expensed CVD and ADD deposits totaling \$8.21 million (year ended December 31, 2017 – \$9.9 million), based on the final "all other" CVD rate of 14.19% and ADD rate of 6.04%, on shipments of softwood lumber to the US. The difference between cash deposits paid based on the preliminary rates and the amounts expensed in 2017 of \$2.27 million are included in deposits and long-term receivables.

The duty rates are subject to change based on administrative reviews and appeals available to the Company. Notwithstanding the deposit rates assigned under the investigations, the Company's final liability for the assessment of CVD and ADD will not be determined until each annual administrative review process is complete and related appeal processes are completed.

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.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2018 (unaudited)

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

15. SUBSEQUENT EVENT

(a) Acquisition

On July 9, 2018, the Company completed the acquisition of all the outstanding membership interests of Suwannee Lumber Holding Company LLC, Suwannee Timber Management LLC and Caddo River Forest Products LLC (collectively, the "BW Group") pursuant to a Securities Purchase Agreement (the "SPA") with BW SLC Holdings LLC and the minority shareholders of Caddo River Forest Products LLC (together, the "Vendors"). The total purchase price under the transaction was (i) cash consideration of US\$153.1 million plus US\$19.8 million, representing the estimated net working capital of the BW Group at closing, (ii) \$60.3 million through the issuance of 9,273,291 common shares of the Company (the "Shares") to the Vendors at a price of \$6.50 per Share, and (iii) 3.5 million warrants to purchase Shares for a period of five years (subject to extension in certain circumstances for a one-year period) at an exercise price of \$8.78 per Share.

The cash portion of the purchase price was paid by the Company using the net proceeds from its recently completed \$64.8 million offering of subscription receipts (the "Subscription Receipts") and borrowings under the Company's new syndicated US\$225.0 million senior secured credit facility (the "New Credit Facility") led by a leading US commercial bank, along with a syndicate of other lenders. A total of 10,806,332 Shares were issued to the holders of the Subscription Receipts.

The BW Group operations include a sawmill in Cross City, Florida (the "Cross City Mill") and a sawmill in Glenwood, Arkansas (the "Glenwood Mill"), which both primarily produce Southern Yellow Pine softwood lumber and specialty products. The Cross City Mill and Glenwood Mill each have an annual dimension lumber capacity of 185 million board feet on a two-shift basis. Both the Cross City Mill and Glenwood River Mill have had significant modernization capital projects in recent years.

The following table summarizes the results of the BW Group operations and the estimated pro-forma consolidated results for the six months ended June 30, 2018 as if the acquisition occurred on January 1:

	BW Group	Pro forma Consolidated
	\$	\$
Revenue	99,419.3	430,550.1
Net income for the period	11,246.1	22,959.8

The transaction will be accounted for as a business combination in accordance with the acquisition method. The purchase price will be allocated to the fair value of the assets acquired and the liabilities assumed once valuations for each of the major categories of assets and liabilities are available.

(b) New Credit Facility

The New Credit Facility consists of a US\$165.0 million term loan facility and a US\$60.0 million revolving credit facility with a term of five years. Availability under the revolving credit facility is determined by a borrowing base tied to eligible accounts receivable and inventory. In addition to financing a part of the purchase price of the BW Group, a portion of the New Credit Facility was utilized to pay and retire the Company's Revolving Facility (note 9).

The New Credit Facility is secured by substantially all of the assets of the Company and its subsidiaries, excluding the Mackenzie power generation plant and the Company's interest in a joint venture that holds a forest licence in British Columbia, Canada.