Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2019
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at March 31, 2019 (unaudited)

(thousands of Canadian dollars)	Notes	**As at March 31, 2019**	As at December 31, 2018
		$	$
Assets			
Current assets			
Cash		**6,535.6**	16,338.6
Cash - restricted		**11,014.6**	8,613.8
Trade and other receivables		**37,363.5**	38,364.5
Prepaid expenses and deposits		**25,106.4**	26,681.4
Inventories	6	**54,340.9**	67,413.1
Assets held for sale	7	**18,478.2**	883.5
Current assets		**152,839.2**	158,294.9
Property, plant and equipment	8	**376,789.1**	382,095.8
Intangible assets		**5,272.9**	5,361.0
Goodwill	9	**159,331.5**	163,811.9
Long-term investments and other		**25,860.5**	25,917.8
Deferred income tax assets	12	**3,353.2**	3,763.7
Total assets		**723,446.4**	739,245.1
Liabilities			
Current liabilities			
Trade payables, accrued liabilities and other payables		**42,575.8**	37,743.5
Current portion of reforestation obligations		**6,128.4**	6,128.4
Employee liabilities		**2,752.0**	2,452.8
Current portion of revolving credit facility	10	**26,574.0**	12,020.0
Current portion of long-term debt	10	**57,713.9**	34,368.7
Liabilities held for sale	7	**4,249.6**	-
Current liabilities		**139,993.7**	92,713.4
Reforestation obligations		**8,649.2**	7,164.0
Environmental liabilities		**1,296.2**	1,301.6
Other long-term liabilities		**10,308.4**	10,474.0
Revolving credit facility	10	**5,864.4**	23,679.5
Long-term debt	10	**237,163.6**	261,931.4
Deferred income tax liabilities	12	**-**	1,879.3
Non-current liabilities		**263,281.8**	306,429.8
Total liabilities		**403,275.5**	399,143.2
Equity			
Share capital	11	**289,672.1**	289,672.1
Contributed surplus		**17,154.9**	16,854.8
Retained earnings		**4,981.5**	16,862.8
Accumulated other comprehensive income		**8,362.4**	16,712.2
Total equity		**320,170.9**	340,101.9
Total liabilities and equity		**723,446.4**	739,245.1

Refer to liquidity risk (note 2) **and subsequent event** (note 16)

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

Conifex Timber Inc.

Condensed consolidated statements of net income (loss) and comprehensive income (loss)
period ended March 31, 2019 (unaudited)

		Three months ended March 31,	
(thousands of Canadian dollars)	Notes	**2019**	2018
		$	$
Revenue		**133,745.2**	93,294.3
Costs and expenses			
Cost of goods sold		**120,423.4**	65,460.1
Freight and distribution costs		**16,671.9**	11,426.2
Softwood lumber duties	15	**3,762.5**	6,220.0
Selling, general and administrative		**5,265.5**	3,930.7
		146,123.3	87,037.0
Operating income (loss)		**(12,378.1)**	6,257.3
Gain on disposal of assets		**70.6**	-
Finance costs and accretion		**(6,100.6)**	(1,461.4)
Loss on derivative financial instruments		**(103.9)**	(2,170.4)
Foreign exchange gain on long-term debt		**4,500.8**	-
Foreign exchange gain (loss)		**501.0**	(381.7)
		(1,132.1)	(4,013.5)
Income (loss) before taxes		**(13,510.2)**	2,243.8
Income tax expense (recovery):	12		
Current		**-**	-
Deferred		**(1,468.8)**	660.1
		(1,468.8)	660.1
Income (loss) from continuing operations		**(12,041.4)**	1,583.7
Income from discontinued operations	7	**160.1**	957.4
Net income (loss)		**(11,881.3)**	2,541.1
Other comprehensive loss			
Foreign exchange translation of foreign operations, net of tax		**(8,349.8)**	-
Other comprehensive loss, net of tax		**(8,349.8)**	-
Total comprehensive income (loss) for the period		**(20,231.1)**	2,541.1
Income (loss) from continuing operations per share, basic and diluted: (in dollars)		**(0.25)**	0.06
Net income (loss) per share, basic and diluted: (in dollars)		**(0.25)**	0.10

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 March 31, 2019 (unaudited)

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
	$	$	$	$	$
Balance at December 31, 2017	174,282.0	11,444.6	23,917.0	-	209,643.6
Net income for the three months ended March 31, 2018	-	-	2,541.1	-	2,541.1
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	208.1	(194.8)	-	-	13.3
Recognition of share-based payments	-	262.5	-	-	262.5
Balance at March 31, 2018	174,488.6	11,512.3	26,458.1	-	212,459.0
Net loss for the period from April 1, 2018 to December 31, 2018	-	-	(9,595.3)	-	(9,595.3)
Public offering of common shares, net of issue costs	60,628.7	-	-	-	60,628.7
Issue of common shares on acquisition of Cross City and Glenwood Mills	54,156.0	-	-	-	54,156.0
Issue of warrants on acquisition of Cross City and Glenwood Mills	-	4,969.3	-	-	4,969.3
Issue of common shares upon vesting of share-based payment	398.8	(385.2)	-	-	13.6
Recognition of share-based payments	-	758.4	-	-	758.4
Foreign exchange translation of foreign operations, net of tax	-	-	-	16,712.2	16,712.2
Balance at December 31, 2018	289,672.1	16,854.8	16,862.8	16,712.2	340,101.9
Net loss for the three months ended March 31, 2019	**-**	**-**	**(11,881.3)**	**-**	**(11,881.3)**
Recognition of share-based payments	**-**	**300.1**	**-**	**-**	**300.1**
Foreign exchange translation of foreign operations, net of tax	**-**	**-**	**-**	**(8,349.8)**	**(8,349.8)**
Balance at March 31, 2019	**289,672.1**	**17,154.9**	**4,981.5**	**8,362.4**	**320,170.9**

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

Conifex Timber Inc.

Condensed consolidated statements of cash flows
period ended March 31, 2019 (unaudited)

(thousands of Canadian dollars)	Three months ended March 31, 2019	2018
	$	$
Cash flows from operating activities		
Net income (loss)	**(11,881.3)**	2,541.1
Items not affecting cash:		
Amortization and depreciation	**9,281.3**	4,452.4
Change in mark-to-market value of lumber price derivatives	**53.8**	651.8
Change in reforestation obligations	**1,485.1**	2,137.4
Finance costs and accretion	**6,260.4**	1,624.1
Income tax expense (recovery)	**(1,468.8)**	660.1
Share-based compensation	**300.1**	275.9
Load Displacement Agreement accretion	**(156.9)**	(156.9)
Loss on disposal of assets	**(70.6)**	-
Foreign exchange loss on long-term debt	**(4,500.8)**	-
	(697.7)	12,185.9
Change in:		
Trade and other receivables	**(4,791.8)**	181.4
Prepaid expenses and deposits	**1,301.7**	1,068.7
Inventories	**1,612.7**	(16,240.2)
Accounts payable, accrued liabilities and other payables	**8,747.0**	4,456.3
Environmental liabilities	**(5.4)**	8.7
Employee liabilities	**312.7**	259.4
Net cash provided from operating activities	**6,479.2**	1,920.2
Cash flows from investing activities		
Additions to property, plant and equipment	**(879.1)**	(8,795.4)
Net proceeds from insurance claim settlement	**500.1**	-
Proceeds on disposal of assets, net	**930.9**	-
Net cash provided from (used in) investing activities	**551.9**	(8,795.4)
Cash flows from financing activities		
Proceeds (repayment) of revolving credit facility	**(3,119.7)**	5,632.2
Costs of public offering and private placement	**-**	(1.5)
Repayment of leases	**(1,030.1)**	(428.5)
Repayment of term loans	**(3,811.2)**	(2,249.2)
Financing fees	**(521.0)**	-
Interest paid	**(5,786.7)**	(2,272.4)
Net cash provided from (used in) financing activities	**(14,268.7)**	680.6
Net decrease in cash	**(7,237.6)**	(6,194.6)
Foreign exchange effect on cash	**(164.6)**	-
Cash, beginning of period	**24,952.4**	26,141.2
Cash, end of period	**17,550.2**	19,946.6

The accompanying notes are an integral part of these condensed consolidated interim 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 primarily in the United States, Canadian, Japanese and Chinese 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. LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company's liquidity declined significantly towards the end of 2018 and remained at reduced levels throughout the first quarter of 2019 due primarily to a steep decline in lumber prices, the impact of duty deposits on US shipments, rapidly escalating log costs at our two BC mills, and increased debt levels incurred to fund our strategic expansion in the US South. The Company has taken a number of actions to reduce cash outflows at its BC mills, increase cash inflows at its US mills, and more actively manage debt and working capital levels. The Company continues to manage controllable expenses to optimize liquidity.

In the fourth quarter of 2018, in response to market conditions characterized by lower lumber prices and elevated log costs in the northern interior of BC, the Company announced a temporary change in operating format at its Fort St. James mill which is expected to reduce investment in working capital and reduce overall costs. The Company also curtailed production for a three-week period in February 2019 at this site. Subsequent to the end of the reporting quarter, the Company announced further curtailments at its Fort St. James and Mackenzie mills. The Company expects the curtailments to impact favorably on working capital requirements and cash flow from operations. The Company completed the sale of Lignum subsequent to quarter end and utilized the proceeds to reduce advances drawn under its revolving credit facility (note 7 and note 16). The Company continues to focus on operational enhancements and cost containment as its two Arkansas mills ramp up two-shift production to targeted operating rates. The Company has worked closely with its principal lenders and renegotiated key covenants and repayment terms under its senior secured Credit Facility.

The Company has assessed and is prepared to consider implementing other options to alleviate constrained liquidity. This includes minimizing discretionary capital expenditures, further reducing working capital levels, and potentially monetizing certain assets that are not central to the Company's mid- and long-term development as a North American lumber producer.

The Company manages liquidity risk by regularly preparing rolling cash flow forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and debt service commitments. Based on the current level of operations and present expectations for future periods in light of the existing economic environment, coupled with the actions already taken and the alternatives available to the Company, the Company believes that cash flow from operations and available cash, together with available borrowings under the revolving credit facility, will be adequate to meet our obligations over the next twelve months.

3. 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, 2018, 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.

4. 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, 2018 annual consolidated financial statements.

Change in accounting standards

Effective January 1, 2019, the Company has adopted IFRS 16, *Leases*, using the modified retrospective method. The new standard replaces IAS 17, *Leases,* and the related interpretations. Under this approach, the Company is required to recognize a right-of-use ("ROU") asset for leases that were previously classified as operating, and a related lease liability for the obligation to make the lease payments. The ROU asset represents the Company's right to use the underlying asset over the term of the lease.

At the inception of a lease, the ROU assets will be initially measured at cost, which is the initial lease obligation amount plus any initial direct costs, and less any lease incentives received. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

The lease liability is initially measured based on the present value of the future lease payments discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize ROU assets and lease obligations for leases with a term of twelve months or less, and leases for low-value assets. Lease payments associated with these leases are recognized to the condensed consolidated statement of net income as payments are made over the lease term.

On initial adoption of the new standard, the Company recognized $8.5 million in ROU assets under property, plant and equipment on the condensed consolidated balance sheet and an additional $8.5 million of liabilities in connection with the leases for office spaces, mobile and other equipment.

5. SEASONALITY OF OPERATIONS

The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories at its BC mills 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.

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

6. INVENTORIES

	March 31, 2019	December 31, 2018
	$	$
Logs	**20,834.8**	16,324.7
Lumber	**20,472.5**	39,342.2
Supplies	**12,150.0**	11,411.9
By-products	**883.6**	334.3
	54,340.9	67,413.1

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at March 31, 2019 by $2.4 million (December 31, 2018 – $4.0 million). Write-downs are included in cost of goods sold when incurred.

7. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On March 26, 2019, the Company entered into a definitive purchase agreement with a third party for the sale of its wholly-owned subsidiary, Lignum Forest Products LLP ("Lignum"), for an aggregate purchase price of US$11.5 million, subject to customary working capital adjustments. As at March 31, 2019, the assets and liabilities to be sold have been reclassified as held for sale with the non-current assets being recorded at the lower of the carrying amount or fair value less cost to sell. No impairment was recorded on the reclassification as the fair value less costs to sell exceeded the carrying amount.

As at March 31, 2019, the following assets and liabilities are classified as held for sale:

	March 31, 2019
	$
Accounts receivable	**5,542.1**
Prepaid expenses	**44.4**
Inventories	**11,118.7**
Property, plant and equipment	**528.9**
Goodwill	**1,244.1**
Assets held for sale	**18,478.2**
Trade payables, accrued liabilities and other payables	**3,743.8**
Current portion of long-term debt	**103.7**
Long-term debt	**402.1**
Liabilities held for sale	**4,249.6**

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

The results for the three months ended March 31, 2019 and 2018 have been reclassified in the statement of net income and comprehensive income as discontinued operations. The results of the discontinued operations are as follows:

	Three months ended March 31,	
	2019	2018
	$	$
Revenue	**27,149.7**	37,664.1
Costs and expenses	**26,989.6**	36,706.7
Net income from discontinued operations	**160.1**	957.4
Cash flows from operating activities	**2,656.5**	904.7
Cash flows from investing activities	**(2.2)**	-
Cash flows from financing activities	**(4,931.8)**	(191.8)
Net increase (decrease) in cash	**(2,277.5)**	712.9

On April 1, 2019, the sale of Lignum was completed (note 16).

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Right of use Assets	Capital work in progress	Bioenergy assets	Bioenergy Right of Use Assets	Bioenergy Capital work in progress	Total
	$	$		$	$		$	**$**
Cost								
At December 31, 2017	5,464.0	144,874.3	-	80,567.1	128,652.1	-	-	**359,557.5**
Net additions	-	99,465.5	-	(78,534.8)	1,950.9	-	402.1	**23,283.7**
Acquisition of Cross City and Glenwood Mills	1,674.4	100,089.6	-	1,081.9	-	-	-	**102,845.9**
Disposals	-	(315.6)	-	-	-	-	-	**(315.6)**
Effect of foreign exchange revaluation	156.5	10,182.3	-	(750.1)	-	-	-	**9,588.7**
At December 31, 2018	7,294.9	354,296.1	-	2,364.1	130,603.0	-	402.1	**494,960.2**
Net additions *	-	141.9	8,510.2	249.7	-	7.8	(14.7)	**8,894.9**
Disposals	-	(5.2)	-	-	-	-	-	**(5.2)**
Reclassified to discontinued operations (note 7)	-	(453.3)	(530.8)	-	-	-	-	**(984.1)**
Effect of foreign exchange revaluation	(89.5)	(4,560.6)	-	(17.6)	-	-	-	**(4,667.7)**
At March 31, 2019	**7,205.4**	**349,418.9**	**7,979.4**	**2,596.2**	**130,603.0**	**7.8**	**387.4**	**498,198.1**
Accumulated depreciation								
At December 31, 2017	-	(71,880.1)	-	-	(14,727.4)		-	**(86,607.5)**
Depreciation charge for the year	-	(20,972.5)	-	-	(4,971.7)		-	**(25,944.2)**
Disposals	-	140.5	-	-	-		-	**140.5**
Effect of foreign exchange revaluation	-	(453.2)	-	-	-	-	-	**(453.2)**
At December 31, 2018	-	(93,165.3)	-	-	(19,699.1)	-	-	**(112,864.4)**
Depreciation charge for the year	-	(6,900.8)	(560.2)	-	(1,712.6)	(0.5)	-	**(9,174.1)**
Disposals	-	0.5	-	-	-	-	-	**0.5**
Reclassified to discontinued operations (note 7)	-	426.8	28.4	-	-	-	-	**455.2**
Effect of foreign exchange revaluation	-	173.8	-	-	-	-	-	**173.8**
At March 31, 2019	**-**	**(99,465.0)**	**(531.8)**	**-**	**(21,411.7)**	**(0.5)**	**-**	**(121,409.0)**
Carrying amount								
At December 31, 2018	7,294.9	261,130.8	-	2,364.1	110,903.9	-	402.1	**382,095.8**
At March 31, 2019	**7,205.4**	**249,953.9**	**7,447.6**	**2,596.2**	**109,191.3**	**7.3**	**387.4**	**376,789.1**

* Insurance proceeds received in the three months ended March 31, 2019 of $0.5 million have been netted against the capital work in progress additions.

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

9. GOODWILL

	March 31, 2019	December 31, 2018
	$	$
Cost and carrying amount at beginning of year	**163,811.9**	3,310.5
Acquisition of Cross City and Glenwood Mills	**-**	154,134.5
Reclassification of discontinued operations (note 7)	**(1,244.0)**	
Effect of foreign exchange revaluation	**(3,236.4)**	6,366.9
	159,331.5	163,811.9

10. BORROWINGS

	March 31, 2019	December 31, 2018
	$	$
Non-current		
Leases (a)	**10,796.6**	5,641.5
CP Partnership term loan (b)	**62,275.2**	63,357.1
Senior secured term loan (c)	**164,091.8**	192,932.8
	237,163.6	261,931.4
Revolving credit facility	**5,864.4**	23,679.5
Total non-current borrowings	**243,028.0**	285,610.9
Current		
Current portion of leases (a)	**3,888.7**	2,183.1
Current portion of CP Partnership term loan (b)	**2,939.7**	2,904.2
Current portion of senior secured term loan (c)	**50,885.5**	29,281.4
	57,713.9	34,368.7
Current portion of revolving credit facility	**26,574.0**	12,020.0
Total current borrowings	**84,287.9**	46,388.7
Total borrowings	**327,315.9**	331,999.6

(a) Leases

Leases are for office spaces, mobile and other equipment. The leases expire between 2019 and 2024 and the weighted average incremental borrowing rate applied at January 1, 2019 was 5.7% per annum. The principal balance outstanding at March 31, 2019 is $14.7 million (December 31, 2018 – $7.8 million).

(b) CP Partnership term loan

Conifex Power Limited Partnership (“CP Partnership”), a wholly-owned subsidiary of the Company, completed a $70.0 million secured term loan (the “CP Partnership Term Loan”) with a syndicate of private lenders in October 2018. The CP Partnership Term Loan is for a term of 15 years, repayable quarterly commencing December 2018 and bears interest at a fixed rate of 6.1% per annum.

The CP Partnership Term Loan is primarily secured by a first priority security interest on existing and after acquired assets of the bioenergy segment. The CP Partnership Term Loan is non-recourse to the Company’s other operations.

As at March 31, 2019, CP Partnership held $11.0 million of cash in restricted accounts (December 31, 2018 – $8.6 million). Funds from restricted accounts are distributed in accordance with the terms of the CP Partnership Term Loan.

Deferred financing costs of $2.1 million were netted against the CP Partnership Term Loan as at March 31, 2019 (December 31, 2018 – $2.2 million).

(c) Senior secured credit facility

The Company entered into a syndicated five-year US$225.0 million senior secured credit facility led by a leading US commercial bank, along with a syndicate of other lenders (the “Credit Facility”) in July 2018. The Credit Facility consists of a US$165.0 million term loan facility and a US$60.0 million revolving credit facility. The Credit Facility is secured by substantially all of the Company’s lumber segment assets.

Interest is payable on the Credit Facility at floating rates based on the lenders’ Canadian prime rate, CDOR, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company’s maximum total leverage ratio.

The borrowings of the Company under the Credit Facility are subject to customary covenants, including a fixed charge coverage ratio and a maximum total leverage ratio. The financial covenants are measured quarterly based on the performance and financial position of the loan parties, which excludes certain of the Company’s subsidiaries.

The term loan is subject to quarterly scheduled repayments and amortized at 5% of the principal amount over the first two years, 7.5% in year three, and 10% in years four and five. Additional annual principal repayments commence in the second quarter of 2020 and are based on 50% of excess cash flow from the prior fiscal year.

Availability under the revolving credit facility is determined by a borrowing base calculation tied to eligible receivables and inventory, net of specific reserves. Borrowings can be drawn in Canadian or US dollars. As at March 31, 2019, the Company has drawn $39.1 million under the revolving credit facility (December 31, 2018 – $42.2 million). Deferred financing costs of $6.7 million were netted against the revolving credit facility (December 31, 2018 – $6.5 million).

Certain covenants and repayment terms under the Credit Facility were amended subsequent to completion of the credit agreement. Terms of the amendments included the elimination of measurement of the financial covenants for the quarters ended December 31, 2018 through December 31, 2019, with measurement to resume March 31, 2020; an increase ranging from 1% to 2.25% in the applicable margin depending on the maximum total leverage ratio; revisions to availability under the revolving facility and a periodic reduction of the revolving credit facility. The reduction in the revolving credit facility is not expected to materially impact forecast borrowing base availability.

The amendments provide for accelerated repayment of the term loan from additional scheduled repayments and an increase in the annual non-scheduled principal repayments from 50% to 80% of excess cash flow. In addition, the term of the Credit Facility was revised to mature on June 30, 2021. The Company believes that cash flow from operations and available cash, together with available borrowings under the revolving credit facility and successful completion of other initiatives underway to enhance liquidity, will be adequate to meet our obligations through 2019. The Company was in compliance with its covenants under the Credit Facility at March 31, 2019.

11. SHARE CAPITAL

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount
		$
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 three months ended March 31, 2018	27	208.1
Balance at March 31, 2018	26,465	174,488.6
Public offering of common shares, net of issue costs	10,806	60,628.7
Issue of common shares on acquisition of Cross City and Glenwood Mills	9,273	54,156.0
Shares vested under share-based compensation plan during the period from April 1, 2018 to December 31 2018	66	398.8
Balance at December 31, 2018 and March 31, 2019	**46,610**	**289,672.1**

12. INCOME TAX

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

	Three months ended March 31,	
	2019	2018
	$	$
Current	**-**	-
Deferred	**(1,468.8)**	660.1
	(1,468.8)	660.1

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

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

	Three months ended March 31, 2019	2018
	$	$
Income (loss) before taxes	**(13,350.2)**	3,201.2
Income tax expense at corporation rate of 27.2% (2018 – 27.0%)	**(3,631.2)**	864.4
Non-deductible (non-taxable) items for tax purposes	**96.0**	(82.9)
Rate differentials between jurisdictions	**24.6**	-
Change in deferred tax assets not recognized	**2,146.4**	(100.7)
Other	**(104.6)**	(20.7)
Total income tax expense (recovery)	**(1,468.8)**	660.1

13. 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”) and Navcor Transportation Services Inc. (“Navcor”). CFMI 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
	$	$	$	$
Three months ended March 31, 2019				
Sales to external customers	**125,535.2**	**8,210.0**	**-**	**133,745.2**
Operating income (loss)	**(13,500.7)**	**3,036.9**	**(1,914.3)**	**(12,378.1)**
Gain on disposal of assets	**70.6**	**-**	**-**	**70.6**
Finance costs and accretion	**-**	**(1,124.4)**	**(4,976.2)**	**(6,100.6)**
Loss on derivative financial instruments	**(103.9)**	**-**	**-**	**(103.9)**
Foreign exchange gain on long-term debt	**-**	**-**	**4,500.8**	**4,500.8**
Foreign exchange gain	**-**	**-**	**501.0**	**501.0**
Income tax recovery	**-**	**-**	**1,468.8**	**1,468.8**
Income from discontinued opeartions	**702.7**	**-**	**(542.6)**	**160.1**
Net income (loss)	**(12,831.3)**	**1,912.5**	**(962.5)**	**(11,881.3)**
Depreciation and amortization	**7,489.9**	**1,719.1**	**41.4**	**9,250.4**
Capital expenditures	**344.4**	**(14.7)**	**47.3**	**377.0**
Identifiable assets	**426,695.3**	**128,324.5**	**168,426.6**	**723,446.4**
Three months ended March 31, 2018 Restated*				
Sales to external customers	85,760.9	7,533.4	-	93,294.3
Operating income (loss)	5,965.8	2,016.3	(1,724.8)	6,257.3
Finance costs and accretion	-	(1,076.8)	(384.6)	(1,461.4)
Loss on derivative financial instruments	(2,170.4)	-	-	(2,170.4)
Foreign exchange loss	-	(0.4)	(381.3)	(381.7)
Income tax expense	-	-	(660.1)	(660.1)
Income from discontinued operations	634.7	-	322.7	957.4
Net income (loss)	4,430.1	939.1	(2,828.1)	2,541.1
Depreciation and amortization	2,808.9	1,597.6	44.8	4,451.3
Capital expenditures	7,828.5	43.5	21.1	7,893.1
Identifiable assets	318,618.4	125,598.4	12,155.9	456,372.7

Revenues by geographic area were as follows:

	Three months ended March 31,	
	2019	2018
	$	$
United States	**93,682.0**	44,954.5
Canada	**22,264.2**	30,175.0
Japan	**10,229.1**	8,409.1
China	**6,987.7**	7,736.7
Other	**582.2**	2,019.0
	133,745.2	93,294.3

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

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

14. 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 March 31, 2019 and December 31, 2018, and shows the level within the fair value hierarchy in which they have been classified:

	Fair value hierarchy level	**March 31, 2019**	December 31, 2018
		$	$
Financial assets			
Fair value through profit and loss			
Derivative financial instruments	Level 2	**446.4**	1,193.3
		446.4	1,193.3

15. COUNTERVAILING AND ANTI-DUMPING DUTIES

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 ("CV") and antidumping ("AD") duties against Canadian imports of softwood lumber. On January 6, 2017, a preliminary determination was announced by the USITC that there was reasonable indication that the US industry is materially injured by imports of Canadian softwood lumber products and the USDOC imposed duties on such shipments into the US.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, but subsequently amended to 6.04%.

The rate amendments resulted in an overpayment of duty deposits in 2017 of $2.3 million which the Company recorded as a reduction of CV and AD duty deposit expense in September 2017. The overpayment is included in deposits and long-term receivables.

In the first quarter of 2019, the Company expensed CV and AD duty deposits totaling $3.8 million (year ended December 31, 2018 – $24.7 million), based on the final "all other" CV duty rate of 14.19% and AD duty rate of 6.04%.

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 CV and AD will not be determined until each annual administrative review process is complete and related appeal processes are completed. Cumulative duties of US$29.1 million paid by the Company since the inception of the current trade dispute remain held in trust by the US pending the First Administrative Review and conclusion of all appeals of US decisions.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, the Company denies the US allegations and strongly disagrees with the current CV and AD determinations made by the USDOC. The Federal Government has proceeded with legal challenges under the North American Free Trade Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.

16. SUBSEQUENT EVENT

On April 1, 2019, the Company completed the sale of Lignum for proceeds of approximately US$11.5 million. The final proceeds for working capital is subject to customary post-closing adjustments. The proceeds of the sale were utilized to repay a portion of the revolving credit facility.