

Condensed consolidated interim financial statements of

Conifex Timber Inc.

June 30, 2019
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at June 30, 2019 (unaudited)

(thousands of Canadian dollars)	Notes	As at June 30, 2019	As at December 31, 2018
		\$	\$
Assets			
<i>Current assets</i>			
Cash		2,393.1	16,338.6
Cash - restricted	11	12,670.4	8,613.8
Trade and other receivables		35,257.5	38,364.5
Prepaid expenses and deposits		22,144.4	26,681.4
Inventories	6	34,429.0	67,413.1
Assets held for sale	7	25,830.4	883.5
Current assets		132,724.8	158,294.9
Property, plant and equipment	9	344,689.4	382,095.8
Intangible assets		3,720.0	5,361.0
Goodwill	10	156,083.3	163,811.9
Long-term investments and other		23,436.0	25,917.8
Deferred income tax assets	13	6,077.7	3,763.7
Total assets		666,731.2	739,245.1
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		47,001.3	37,743.5
Current portion of reforestation obligations		3,929.9	6,128.4
Employee liabilities		2,395.9	2,452.8
Current portion of revolving credit facility	11	1,945.7	12,020.0
Current portion of long-term debt	11	89,515.0	34,368.7
Liabilities held for sale	7	4,000.8	-
Current liabilities		148,788.6	92,713.4
Reforestation obligations		5,535.3	7,164.0
Environmental liabilities		1,292.6	1,301.6
Other long-term liabilities		10,142.8	10,474.0
Revolving credit facility	11	-	23,679.5
Long-term debt	11	197,233.4	261,931.4
Deferred income tax liabilities	13	-	1,879.3
Non-current liabilities		214,204.1	306,429.8
Total liabilities		362,992.7	399,143.2
Equity			
Share capital	12	289,672.1	289,672.1
Contributed surplus		17,443.3	16,854.8
Retained earnings (deficit)		(4,103.7)	16,862.8
Accumulated other comprehensive income		726.8	16,712.2
Total equity		303,738.5	340,101.9
Total liabilities and equity		666,731.2	739,245.1

Refer to liquidity risk (note 2)

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 June 30, 2019 (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
		\$	\$	\$	\$
Revenue		95,721.3	138,734.2	229,466.5	232,028.5
Costs and expenses					
Cost of goods sold		96,692.1	94,617.9	217,115.5	160,078.0
Freight and distribution costs		12,034.1	17,414.4	28,706.0	28,840.6
Softwood lumber duties	16	2,473.9	8,163.6	6,236.4	14,383.6
Selling, general and administrative		5,019.8	3,834.7	10,285.3	7,765.4
		116,219.9	124,030.6	262,343.2	211,067.6
Operating income (loss)		(20,498.6)	14,703.6	(32,876.7)	20,960.9
Gain (loss) on disposal of assets		(25.0)	7.5	45.6	7.5
Finance costs and accretion		(7,456.1)	(2,388.5)	(13,556.7)	(3,849.9)
Loss on derivative financial instruments		(150.0)	(1,211.3)	(253.9)	(3,381.7)
Foreign exchange gain on long-term debt		4,385.1	-	8,885.9	-
Foreign exchange gain (loss)		53.1	177.8	554.1	(203.9)
Other income	16	12,632.7	-	12,632.7	-
		9,439.8	(3,414.5)	8,307.7	(7,428.0)
Income (loss) before taxes		(11,058.8)	11,289.1	(24,569.0)	13,532.9
Income tax expense (recovery):					
Deferred	13	(2,724.5)	3,551.5	(4,193.3)	4,211.6
Income (loss) from continuing operations		(8,334.3)	7,737.6	(20,375.7)	9,321.3
Income (loss) from discontinued operations	8	(750.9)	1,435.0	(590.8)	2,392.4
Net income (loss)		(9,085.2)	9,172.6	(20,966.5)	11,713.7
Other comprehensive income (loss)					
Foreign exchange translation of foreign operations, net of tax		(7,635.6)	1,046.4	(15,985.4)	1,046.4
Total comprehensive income (loss) for the period		(16,720.8)	10,219.0	(36,951.9)	12,760.1
Net income (loss) per share, basic and diluted (in dollars)		(0.19)	0.35	(0.45)	0.44

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, 2019 (unaudited)

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	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 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
Net loss for the period from July 1, 2018 to December 31, 2018	-	-	(18,767.9)	-	(18,767.9)
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	362.2	(356.6)	-	-	5.6
Recognition of share-based payments	-	511.5	-	-	511.5
Foreign exchange translation of foreign operations, net of tax	-	-	-	15,665.8	15,665.8
Balance at December 31, 2018	289,672.1	16,854.8	16,862.8	16,712.2	340,101.9
Net loss for the six months ended June 30, 2019	-	-	(20,966.5)	-	(20,966.5)
Recognition of share-based payments	-	588.5	-	-	588.5
Foreign exchange translation of foreign operations, net of tax	-	-	-	(15,985.4)	(15,985.4)
Balance at June 30, 2019	289,672.1	17,443.3	(4,103.7)	726.8	303,738.5

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, 2019 (unaudited)

(thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash flows from operating activities				
Net income (loss)	(9,085.2)	9,172.6	(20,966.5)	11,713.7
Items not affecting cash:				
Loss on disposal of business	750.9	-	750.9	-
Amortization and depreciation	7,378.8	5,520.8	16,660.1	9,973.2
Change in mark-to-market value of lumber price derivatives	(10.9)	(911.2)	42.9	(259.4)
Change in reforestation obligations	(1,311.6)	(1,101.0)	173.5	1,036.4
Finance costs and accretion	7,456.2	2,571.9	13,716.6	4,196.0
Income tax expense (recovery)	(2,724.5)	3,551.5	(4,193.3)	4,211.6
Share-based compensation	288.4	254.8	588.5	530.7
Load Displacement Agreement accretion	(156.8)	(156.8)	(313.7)	(313.7)
Loss (gain) on disposal of assets	25.0	(7.5)	(45.6)	(7.5)
Foreign exchange gain on long-term debt	(4,385.1)	-	(8,885.9)	-
	(1,774.8)	18,895.1	(2,472.5)	31,081.0
Change in:				
Trade and other receivables	3,293.0	(2,593.4)	(1,498.8)	(2,412.0)
Prepaid expenses and deposits	4,363.9	(4,890.4)	5,665.6	(3,821.7)
Inventories	16,628.5	21,183.0	18,241.2	4,942.8
Accounts payable, accrued liabilities and other payables	1,964.2	2,571.1	10,711.2	7,027.4
Environmental liabilities	(3.5)	(10.1)	(8.9)	(1.4)
Employee liabilities	(346.4)	1,050.0	(33.7)	1,309.4
Net cash provided from operating activities	24,124.9	36,205.3	30,604.1	38,125.5
Cash flows from investing activities				
Additions to property, plant and equipment	(1,361.4)	(9,041.1)	(2,240.5)	(17,836.5)
Net proceeds from insurance claim settlement	-	-	500.1	-
Proceeds on disposal of assets, net	(25.0)	55.1	905.9	55.1
Net proceeds from sale of business	13,477.6	-	13,477.6	-
Net cash provided from (used in) investing activities	12,091.2	(8,986.0)	12,643.1	(17,781.4)
Cash flows from financing activities				
Repayment of revolving credit facility	(26,935.4)	(9,280.7)	(30,055.1)	(3,648.5)
Repayment of leases	(616.4)	(199.9)	(1,646.5)	(628.4)
Repayment of term loans	(2,981.2)	(525.2)	(6,792.4)	(2,774.4)
Financing fees	(4,962.2)	(2,118.5)	(5,483.2)	(2,118.5)
Interest paid	(3,186.7)	(1,993.9)	(8,973.4)	(4,266.3)
Net cash used in financing activities	(38,681.9)	(14,118.2)	(52,950.6)	(13,437.6)
Net increase (decrease) in cash	(2,465.8)	13,101.1	(9,703.4)	6,906.5
Foreign exchange effect on cash	(20.9)	5.1	(185.5)	5.1
Cash and restricted cash, beginning of period	17,550.2	19,946.6	24,952.4	26,141.2
Cash and restricted cash, end of period	15,063.5	33,052.8	15,063.5	33,052.8

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, 2019 (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 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 half of 2019 due primarily to a steep decline in lumber prices, the impact of duty deposits on US shipments and rapidly escalating log costs at our two BC mills. The Company has taken a number of actions to optimize cash flows from operations under current market conditions and more actively manage debt and working capital levels. The Company has worked closely with its principal lenders and renegotiated key covenants and repayment terms under its senior secured Credit Facility.

During the fourth quarter of 2018 and the first half of 2019, the Company implemented temporary changes in operating formats at its operations in response to market conditions in order to optimize cash flows and reduce investments in working capital. The Company has also completed the sale of certain assets to enhance liquidity during the second quarter of 2019 and subsequent to the end of the reporting period. The sale of Lignum Forest Products LLP ("Lignum") was completed in April 2019 with net proceeds utilized to reduce advances drawn under its revolving credit facility (note 8). In June 2019, the Company completed the sale of its interest in any countervailing ("CV") and antidumping ("AD") duty refunds related to entries of softwood lumber shipments during 2017 and 2018 for net proceeds of \$14.9 million. The net cash proceeds were received subsequent to the reporting period and utilized to reduce the term loan and advances under the revolving credit facility (notes 11 and 16). On June 24, 2019, the Company entered into a definitive sale agreement with a third party for the sale of its Fort St. James, BC sawmill and related forest license for a sale price of approximately \$39.0 million. The completion of the sale of the Fort St. James assets is subject to customary closing conditions, including regulatory approvals, and is expected to be completed in or around October 2019. The net proceeds are expected to be utilized to reduce the term loan and revolving credit facility.

The Company may implement additional options to alleviate constrained liquidity. This includes further reduction of working capital levels and discretionary capital expenditures, and potentially monetizing certain assets that are not central to the Company's mid- and long-term development as a North American lumber producer. For example, the Company has engaged financial advisors to review the possible sale of its Mackenzie power generation plant in whole or in part. These options are necessarily based on the agreement of other parties and, although believed to be reasonable, are nevertheless outside the Company's direct control.

The Company manages liquidity risk by regularly preparing rolling cash flow forecasts of the Company's liquidity requirements to help ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. 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, available cash, and the expected net proceeds of assets dispositions, together with available borrowings under the revolving credit facility, will be adequate to meet our obligations over the next twelve months.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2019 (unaudited)

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

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.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2019 (unaudited)

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

6. INVENTORIES

	June 30, 2019	December 31, 2018
	\$	\$
Logs	8,646.1	16,324.7
Lumber	14,070.4	39,342.2
Supplies	9,417.9	11,411.9
By-products	2,294.6	334.3
	34,429.0	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 June 30, 2019 by \$2.8 million (December 31, 2018 – \$4.0 million). Write-downs are included in cost of goods sold when incurred.

7. ASSETS HELD FOR SALE

On June 24, 2019, the Company entered into a definitive purchase agreement with a third party for the sale of its Fort St. James, BC sawmill and related forest license for a purchase price of approximately \$39.0 million, subject to customary working capital adjustments. The completion of the sale is subject to customary closing conditions, including regulatory approvals, and is expected to close in or around October 2019. As at June 30, 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 June 30, 2019, the following assets and liabilities are classified as held for sale:

	June 30, 2019
	\$
Prepaid expenses and deposits	835.6
Inventories	3,020.8
Property, plant and equipment	20,401.0
Intangible assets	1,573.0
Assets held for sale	25,830.4
Current portion of reforestation obligations	865.8
Reforestation obligations	3,135.0
Liabilities held for sale	4,000.8

8. 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, for an aggregate purchase price of US\$11.5 million, subject to customary working capital adjustments. The sale of Lignum was completed on April 1, 2019.

Based on the book value of the net assets, the net proceeds from the sale and the effect of foreign exchange, the preliminary loss on disposition of Lignum is \$0.8 million as summarized in the table below. The net working capital adjustments are being finalized and could result in changes to the loss on disposition.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2019 (unaudited)

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

	April 1, 2019
	\$
Proceeds of disposition, net of transaction costs	14,606.4
Book value of net assets disposed:	
Cash	1,128.6
Accounts receivable	5,542.1
Prepaid expenses	44.4
Inventories	11,118.7
Property, plant and equipment	529.0
Goodwill	1,244.1
Trade payables, accrued liabilities and other payables	(3,743.8)
Long-term debt	(505.8)
Net assets disposed	15,357.3
Loss on disposal of business	(750.9)

The results for the three and six months ended June 30, 2019 and 2018 have been reclassified in the condensed consolidated statement of net income as discontinued operations. The results of the discontinued operations are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenue	-	61,629.4	27,149.7	99,293.5
Costs and expenses	-	(60,194.4)	(26,989.6)	(96,901.1)
Loss on disposal of business	(750.9)	-	(750.9)	-
Net income (loss) from discontinued operations	(750.9)	1,435.0	(590.8)	2,392.4
Cash flows from:				
Operating activities	-	1,394.9	2,656.5	2,299.6
Investing activities	-	(2.8)	(2.2)	(2.8)
Financing activities	-	1,044.1	(4,931.8)	852.3
Net increase (decrease) in cash	-	2,436.2	(2,277.5)	3,149.1

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2019 (unaudited)

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

9. 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
	\$	\$		\$	\$		\$	\$
<i>Cost</i>								
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 *	-	1,813.2	8,874.0	(1,845.9)	-	7.8	(14.3)	8,834.8
Disposals	-	(5.3)	-	-	-	-	-	(5.3)
Disposal of business (note 8)	-	(453.2)	(530.8)	-	-	-	-	(984.0)
Reclassified to assets held for sale (note 7) *	(113.7)	(71,068.6)	-	1,267.8	-	-	-	(69,914.5)
Effect of foreign exchange revaluation	(179.4)	(9,147.4)	(90.3)	(37.0)	-	-	-	(9,454.1)
At June 30, 2019	7,001.8	275,434.8	8,252.9	1,749.0	130,603.0	7.8	387.8	423,437.1
<i>Accumulated depreciation</i>								
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	-	(12,761.9)	(1,098.3)	-	(2,592.2)	(1.1)	-	(16,453.5)
Disposals	-	0.5	-	-	-	-	-	0.5
Disposal of business (note 8)	-	426.8	28.4	-	-	-	-	455.2
Reclassified to assets held for sale (note 7)	-	49,513.5	-	-	-	-	-	49,513.5
Effect of foreign exchange revaluation	-	588.9	12.1	-	-	-	-	601.0
At June 30, 2019	-	(55,397.5)	(1,057.8)	-	(22,291.3)	(1.1)	-	(78,747.7)
<i>Carrying amount</i>								
At December 31, 2018	7,294.9	261,130.8	-	2,364.1	110,903.9	-	402.1	382,095.8
At June 30, 2019	7,001.8	220,037.3	7,195.1	1,749.0	108,311.7	6.7	387.8	344,689.4

* Insurance proceeds receivable during the six month period ended June 30, 2019 of \$1.8 million have been netted against the capital work in progress additions.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2019 (unaudited)

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

10. GOODWILL

	June 30, 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 8)	(1,244.0)	-
Effect of foreign exchange revaluation	(6,484.6)	6,366.9
	156,083.3	163,811.9

11. BORROWINGS

	June 30, 2019	December 31, 2018
	\$	\$
Non-current		
Leases (a)	10,135.9	5,641.5
CP Partnership term loan (b)	62,036.7	63,357.1
Senior secured term loan (c)	125,060.8	192,932.8
	197,233.4	261,931.4
Revolving credit facility	-	23,679.5
Total non-current borrowings	197,233.4	285,610.9
Current		
Current portion of leases (a)	3,750.3	2,183.1
Current portion of CP Partnership term loan (b)	2,987.6	2,904.2
Current portion of senior secured term loan (c)	82,777.1	29,281.4
	89,515.0	34,368.7
Current portion of revolving credit facility	1,945.7	12,020.0
Total current borrowings	91,460.7	46,388.7
Total borrowings	288,694.1	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 June 30, 2019 is \$13.9 million (December 31, 2018 – \$7.8 million). Total payments for leases was \$2.2 million for the six months ended June 30, 2019.

(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.

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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 June 30, 2019, CP Partnership held \$12.7 million of cash in restricted accounts (December 31, 2018 – \$8.6 million). The cash held in restricted accounts provides cash collateral for letters of credit issued to support the Electricity Purchase Agreement and Load Displacement Agreement with BC Hydro, and to fund various reserve funds required under 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 June 30, 2019 (December 31, 2018 – \$2.2 million).

(c) Senior secured credit facility

Senior secured credit facility agreement

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 June 30, 2019, the Company has drawn \$12.1 million under the revolving credit facility (December 31, 2018 – \$42.2 million). Deferred financing costs of \$10.2 million were netted against the revolving credit facility (December 31, 2018 – \$6.5 million).

Unused availability under our revolving credit facility was approximately \$1.9 million at June 30, 2019. Subsequent to quarter end, availability was enhanced by approximately \$13 million from increased availability US\$5 million related to an amendment under the Credit Facility and from a portion of the net proceeds from the sale of the right to duty refunds (note 16).

Senior secured credit facility amendments

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.

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While the Company was in compliance with debt covenants under the Credit Facility for the period ended June 30, 2019, it is actively working with its lenders to amend certain requirements under the Credit Facility, which is expected to be completed in or about the third quarter of 2019. However, because discussions have not been finalized and the lenders' decision is out of the Company's control, the outcome cannot be considered probable and no assurance can be given regarding the likelihood, certainty or timing of consummating any such amendment.

12. 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 six months ended June 30, 2018	32	244.7
Balance at June 30, 2018	26,470	174,525.2
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 July 1, 2018 to December 31 2018	61	362.2
Balance at December 31, 2018 and June 30, 2019	46,610	289,672.1

13. INCOME TAX

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Current	-	-	-	-
Deferred	(2,724.5)	3,551.5	(4,193.3)	4,211.6
	(2,724.5)	3,551.5	(4,193.3)	4,211.6

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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,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Income (loss) before taxes	(11,809.7)	12,724.1	(25,159.8)	15,925.3
Income tax expense (recovery) at corporate rate of 27% (2018 – 27%)	(3,237.0)	3,435.5	(6,868.2)	4,299.8
Non-deductible (non-taxable) items for tax purposes	88.2	69.9	184.2	(13.0)
Rate differentials between jurisdictions	51.7	(4.4)	76.3	(4.4)
Change in deferred tax assets not recognized	181.2	47.8	2,327.6	(52.9)
Other	191.4	2.7	86.8	(17.9)
Total income tax expense (recovery)	(2,724.5)	3,551.5	(4,193.3)	4,211.6

14. 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.

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Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
Three months ended June 30, 2019				
Sales to external customers	91,286.9	4,434.4	-	95,721.3
Operating income (loss)	(19,098.2)	566.4	(1,966.8)	(20,498.6)
Loss on disposal of assets	(25.0)	-	-	(25.0)
Finance costs and accretion	-	(1,110.1)	(6,346.0)	(7,456.1)
Loss on derivative financial instruments	(150.0)	-	-	(150.0)
Foreign exchange gain on long-term debt	-	-	4,385.1	4,385.1
Foreign exchange gain (loss)	-	(2.3)	55.4	53.1
Other income	12,632.7	-	-	12,632.7
Income tax recovery	-	-	2,724.5	2,724.5
Loss from discontinued operations	(750.9)	-	-	(750.9)
Net income (loss)	(7,391.4)	(546.0)	(1,147.8)	(9,085.2)
Depreciation and amortization	6,449.5	886.1	43.2	7,378.8
Capital expenditures	(433.8)	0.4	7.2	(426.2)
Identifiable assets	358,137.0	127,057.0	181,537.2	666,731.2
Three months ended June 30, 2018				
Restated*				
Sales to external customers	133,652.1	5,082.1	-	138,734.2
Operating income (loss)	14,880.4	1,359.2	(1,536.0)	14,703.6
Gain on disposal of assets	7.5	-	-	7.5
Finance costs and accretion	-	(1,075.0)	(1,313.5)	(2,388.5)
Loss on derivative financial instruments	(1,211.3)	-	-	(1,211.3)
Foreign exchange gain (loss)	-	(3.6)	181.4	177.8
Income tax expense	-	-	(3,551.5)	(3,551.5)
Income from discontinued operations	1,151.3	-	283.7	1,435.0
Net income (loss)	14,827.9	280.6	(5,935.9)	9,172.6
Depreciation and amortization	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

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	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
Six months ended June 30, 2019				
Sales to external customers	216,822.1	12,644.4	-	229,466.5
Operating income (loss)	(32,598.9)	3,603.3	(3,881.1)	(32,876.7)
Gain on disposal of assets	45.6	-	-	45.6
Finance costs and accretion	-	(2,234.5)	(11,322.2)	(13,556.7)
Loss on derivative financial instruments	(253.9)	-	-	(253.9)
Foreign exchange gain on long-term debt	-	-	8,885.9	8,885.9
Foreign exchange gain (loss)	-	(2.3)	556.4	554.1
Other income	12,632.7	-	-	12,632.7
Income tax recovery	-	-	4,193.3	4,193.3
Loss from discontinued operations	(48.2)	-	(542.6)	(590.8)
Net income (loss)	(20,222.7)	1,366.5	(2,110.3)	(20,966.5)
Depreciation and amortization	13,970.3	2,605.2	84.6	16,660.1
Capital expenditures	(89.4)	(14.3)	54.5	(49.2)
Identifiable assets	358,137.0	127,057.0	181,537.2	666,731.2
Six months ended June 30, 2018				
Restated*				
Sales to external customers	219,413.0	12,615.5	-	232,028.5
Operating income (loss)	20,846.2	3,375.5	(3,260.8)	20,960.9
Gain on disposal of assets	7.5	-	-	7.5
Finance costs and accretion	-	(2,151.8)	(1,698.1)	(3,849.9)
Loss on derivative financial instruments	(3,381.7)	-	-	(3,381.7)
Foreign exchange loss	-	(4.0)	(199.9)	(203.9)
Income tax expense	-	-	(4,211.6)	(4,211.6)
Income from discontinued operations	1,786.0	-	606.4	2,392.4
Net income (loss)	19,258.0	1,219.7	(8,764.0)	11,713.7
Depreciation and amortization	7,278.2	2,612.3	82.7	9,973.2
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

Revenues by geographic area were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
United States	72,353.8	75,124.9	166,035.7	120,079.3
Canada	12,365.3	31,230.8	34,629.6	61,405.9
Japan	4,675.6	16,570.1	14,904.7	24,979.2
China	5,852.4	11,388.8	12,840.1	19,125.5
Other	474.2	4,419.6	1,056.4	6,438.6
	95,721.3	138,734.2	229,466.5	232,028.5

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Non-current assets by geographic area were as follows:

	June 30, 2019	December 31, 2018
	\$	\$
United States	361,530.1	381,691.6
Canada	146,398.7	173,026.7
	507,928.8	554,718.3

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.

15. 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, 2019 and December 31, 2018, and shows the level within the fair value hierarchy in which they have been classified:

	Fair value hierarchy level	June 30, 2019	December 31, 2018
		\$	\$
Financial assets			
Fair value through profit and loss			
Derivative financial instruments	Level 2	164.3	1,193.3
		164.3	1,193.3

16. 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 CV and 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.

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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 Company expensed CV and AD duty deposits totaling \$2.5 million in the second quarter of 2019 and \$6.2 million for the six months ended June 30, 2019 (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\$33.1 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.

In June 2019, the Company completed the sale to a third party, for gross proceeds of US\$11.9 million, of its right to refunds on aggregate duties paid of US\$28.0 million during the period from April 28, 2017 to December 31, 2018. The proceeds of disposition, net of transaction costs, totaled \$14.9 million, of which \$2.3 million was credited to accounts receivable to clear a previous overpayment of duty deposits and \$12.6 million was recorded as other income in the condensed consolidated statement of net income. The proceeds were received on July 2, 2019, subsequent to quarter end, and recorded as accounts receivable at June 30, 2019.

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.