

Condensed consolidated interim financial statements of

Conifex Timber Inc.

September 30, 2019
(Unaudited)

Confifex Timber Inc.

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

(thousands of Canadian dollars)	Notes	As at September 30, 2019	As at December 31, 2018
		\$	\$
Assets			
<i>Current assets</i>			
Cash		2,359.6	16,338.6
Cash - restricted	11	6,272.9	8,613.8
Trade and other receivables		20,964.2	38,364.5
Prepaid expenses and deposits		19,822.7	26,681.4
Inventories	6	25,792.1	67,413.1
Assets held for sale	7	25,633.3	883.5
Current assets		100,844.8	158,294.9
Property, plant and equipment	9	342,429.6	382,095.8
Intangible assets		3,640.4	5,361.0
Goodwill	10	157,989.8	163,811.9
Long-term investments and other		23,440.0	25,917.8
Deferred income tax assets	13	11,563.0	3,763.7
Total assets		639,907.6	739,245.1
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		46,574.4	37,743.5
Current portion of reforestation obligations		4,062.6	6,128.4
Employee liabilities		1,429.2	2,452.8
Current portion of revolving credit facility	11	11,358.6	12,020.0
Current portion of long-term debt	11	146,296.5	34,368.7
Liabilities held for sale	7	3,370.9	-
Current liabilities		213,092.2	92,713.4
Reforestation obligations		5,689.7	7,164.0
Environmental liabilities		1,180.4	1,301.6
Other long-term liabilities		9,977.2	10,474.0
Revolving credit facility	11	-	23,679.5
Long-term debt	11	118,258.5	261,931.4
Deferred income tax liabilities	13	-	1,879.3
Non-current liabilities		135,105.8	306,429.8
Total liabilities		348,198.0	399,143.2
Equity			
Share capital	12	290,702.9	289,672.1
Contributed surplus		16,526.5	16,854.8
Retained earnings (deficit)		(20,743.3)	16,862.8
Accumulated other comprehensive income		5,223.5	16,712.2
Total equity		291,709.6	340,101.9
Total liabilities and equity		639,907.6	739,245.1

Refer to liquidity risk (note 2) and subsequent event (note 17)

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 September 30, 2019 (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
		\$	\$	\$	\$
Revenue		65,186.9	157,165.6	294,653.5	389,194.1
Costs and expenses					
Cost of goods sold		67,279.4	116,913.4	284,394.8	276,991.4
Freight and distribution costs		7,061.5	17,683.0	35,767.5	46,523.7
Softwood lumber duties	16	1,272.5	6,316.5	7,509.0	20,700.1
Selling, general and administrative		4,596.8	5,135.5	14,882.2	12,900.9
		80,210.2	146,048.4	342,553.5	357,116.1
Operating income (loss)		(15,023.3)	11,117.2	(47,900.0)	32,078.0
Gain on disposal of assets		-	-	45.6	7.5
Finance costs and accretion		(7,131.0)	(6,321.8)	(20,687.7)	(10,171.7)
Gain (loss) on derivative financial instruments		27.7	2,089.3	(221.7)	(1,292.4)
Foreign exchange gain (loss) on long-term debt		(2,436.7)	2,508.0	6,449.2	2,508.0
Foreign exchange gain (loss)		(231.4)	(274.9)	322.7	(478.8)
Acquisition costs		-	(2,141.3)	(4.6)	(2,141.3)
Other income	16	2,582.6	-	15,215.4	-
		(7,188.8)	(4,140.7)	1,118.9	(11,568.7)
Income (loss) before taxes		(22,212.1)	6,976.5	(46,781.1)	20,509.3
Income tax expense (recovery):					
Current		-	1.4	-	1.4
Deferred	13	(5,485.3)	1,019.3	(9,678.6)	5,230.9
		(5,485.3)	1,020.7	(9,678.6)	5,232.3
Income (loss) from continuing operations		(16,726.8)	5,955.8	(37,102.5)	15,277.0
Income (loss) from discontinued operations	8	87.2	(1,663.8)	(503.6)	728.7
Net income (loss)		(16,639.6)	4,292.0	(37,606.1)	16,005.7
Other comprehensive income (loss)					
Foreign exchange translation of foreign operations, net of tax		4,496.6	(5,375.7)	(11,488.7)	(4,329.3)
Other comprehensive income (loss), net of tax		4,496.6	(5,375.7)	(11,488.7)	(4,329.3)
Total comprehensive income (loss) for the period		(12,143.0)	(1,083.7)	(49,094.8)	11,676.4
Net income (loss) per share, basic and diluted (in dollars)		(0.35)	0.09	(0.80)	0.49

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 September 30, 2019 (unaudited)

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2017	174,282.0	11,444.6	23,917.0	-	209,643.6
Net income for the nine months ended September 30, 2018	-	-	16,005.7	-	16,005.7
Public offering of common shares, net of issue costs	60,668.7	-	-	-	60,668.7
Issue of common shares on acquisition of Cross City and Glenwood Mills	60,276.4	-	-	-	60,276.4
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	575.6	(548.4)	-	-	27.2
Recognition of share-based payments	-	730.6	-	-	730.6
Foreign exchange translation of foreign operations, net of tax	-	-	-	(4,329.3)	(4,329.3)
Balance at September 30, 2018	295,802.7	16,596.1	39,922.7	(4,329.3)	347,992.2
Net loss for the period from October 1, 2018 to December 31, 2018	-	-	(23,059.9)	-	(23,059.9)
Public offering of common shares, net of issue costs	(41.5)	-	-	-	(41.5)
Issue of common shares on acquisition of Cross City and Glenwood Mills	(6,120.4)	-	-	-	(6,120.4)
Issue of common shares upon vesting of share-based payment	31.3	(31.6)	-	-	(0.3)
Recognition of share-based payments	-	290.3	-	-	290.3
Foreign exchange translation of foreign operations, net of tax	-	-	-	21,041.5	21,041.5
Balance at December 31, 2018	289,672.1	16,854.8	16,862.8	16,712.2	340,101.9
Net loss for the nine months ended September 30, 2019	-	-	(37,606.1)	-	(37,606.1)
Issue of common shares upon vesting of share-based payment	1,030.8	(1,030.8)	-	-	-
Recognition of share-based payments	-	702.5	-	-	702.5
Foreign exchange translation of foreign operations, net of tax	-	-	-	(11,488.7)	(11,488.7)
Balance at September 30, 2019	290,702.9	16,526.5	(20,743.3)	5,223.5	291,709.6

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 September 30, 2019 (unaudited)

(thousands of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash flows from operating activities				
Net income (loss)	(16,639.6)	4,292.0	(37,606.1)	16,005.7
Items not affecting cash:				
Loss (gain) on disposal of business	(87.2)	-	663.7	-
Amortization and depreciation	6,049.1	7,013.1	22,709.2	16,986.3
Change in mark-to-market value of lumber price derivatives	(23.9)	(1,216.5)	19.1	(1,475.9)
Change in reforestation obligations	(342.7)	(288.2)	(169.2)	748.2
Finance costs and accretion	7,131.0	6,513.2	20,847.6	10,709.2
Income tax expense (recovery)	(5,485.3)	1,020.7	(9,678.6)	5,232.3
Share-based compensation	114.0	227.1	702.6	757.8
Load Displacement Agreement accretion	(156.8)	(156.8)	(470.6)	(470.5)
Gain on disposal of assets	-	-	(45.6)	(7.5)
Foreign exchange loss (gain) on long-term debt	2,436.7	(2,508.0)	(6,449.2)	(2,508.0)
	(7,004.7)	14,896.6	(9,477.1)	45,977.6
Change in:				
Trade and other receivables	13,912.0	659.7	12,413.2	(1,752.3)
Prepaid expenses and deposits	2,611.6	1,823.5	8,277.1	(1,998.2)
Inventories	8,962.4	(9,925.1)	27,203.6	(4,982.3)
Accounts payable, accrued liabilities and other payables	(197.0)	(4,131.0)	10,514.3	2,896.4
Environmental liabilities	(112.2)	(10.8)	(121.1)	(12.2)
Employee liabilities	(968.5)	(429.5)	(1,002.2)	879.9
Net cash provided from operating activities	17,203.6	2,883.4	47,807.8	41,008.9
Cash flows from investing activities				
Additions to property, plant and equipment	(1,197.0)	(5,304.4)	(3,437.5)	(23,140.9)
Acquisition of Glenwood and Cross City Mills	-	(221,711.0)	-	(221,711.0)
Net proceeds from insurance claim settlement	479.9	-	980.0	-
Proceeds on disposal of assets, net	-	-	905.9	55.1
Net proceeds from sale of business	87.2	-	13,564.8	-
Net cash provided from (used in) investing activities	(629.9)	(227,015.4)	12,013.2	(244,796.8)
Cash flows from financing activities				
Proceeds of revolving credit facility	-	43,182.9	-	43,182.9
Proceeds of public offering	-	60,670.2	-	60,668.7
Proceeds of term loan facility	-	216,100.5	-	216,100.5
Repayment of revolving credit facility	(797.1)	(93,838.6)	(30,852.2)	(97,487.1)
Proceeds (repayment) of leases	(1,006.3)	204.1	(2,652.9)	(424.3)
Repayment of term loans	(10,691.3)	(922.3)	(17,483.7)	(3,696.7)
Financing fees	(4,327.6)	(4,240.4)	(9,810.8)	(6,358.9)
Interest paid	(6,203.4)	(4,307.4)	(15,176.7)	(8,573.7)
Net cash provided from (used in) financing activities	(23,025.7)	216,849.0	(75,976.3)	203,411.4
Net decrease in cash	(6,452.0)	(7,283.0)	(16,155.3)	(376.5)
Foreign exchange effect on cash	21.0	(78.4)	(164.6)	(73.3)
Cash and restricted cash, beginning of period	15,063.5	33,052.8	24,952.4	26,141.2
Cash and restricted cash, end of period	8,632.5	25,691.4	8,632.5	25,691.4

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

September 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 nine months 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 nine months of 2019, the Company implemented temporary changes in operating formats and temporary and longer term production curtailments 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 over the past six months. 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 and August 2019, the Company completed sales of its interest in any countervailing (“CV”) and antidumping (“AD”) duty refunds related to entries of softwood lumber shipments during 2017 to June 30, 2019 for net proceeds of \$17.5 million. The net cash proceeds were 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 sale was completed on November 1, 2019 with net proceeds utilized to reduce the term loan and revolving credit facility (note 17).

The Company suspended wholesale lumber activity in the third quarter of 2019 and provision of third-party logistics services subsequent to quarter end. These initiatives have reduced working capital requirements without imposing any expected material impact on our future operating results. Liquidity was further enhanced in the third quarter of 2019 with increased availability under the revolving credit facility and the release of \$6.4 million of cash which was previously restricted. Other measures to increase liquidity and meet scheduled commitments include minimizing discretionary capital expenditures, managing controllable expenses and continuing to optimize working capital levels.

Under the terms of an amendment to the Credit Facility completed subsequent to quarter end, the Company is required to provide an asset divestment and restructuring plan that is acceptable to our senior lenders. The Company continues to work collaboratively with lenders and to actively assess a number of additional initiatives underway to enhance liquidity and reduce debt and intend to present and implement an acceptable asset divestiture and restructuring plan within the required timeframe (notes 11 and 17). However, there can be no assurance that it will result in or be able to provide an acceptable plan as required by the amendment.

Conifex Timber Inc.

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

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. Net proceeds from future asset sales may be less than the carrying value of such assets.

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.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

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

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.

6. INVENTORIES

	September 30, 2019	December 31, 2018
	\$	\$
Logs	2,979.0	16,324.7
Lumber	11,568.0	39,342.2
Supplies	9,226.9	11,411.9
By-products	2,018.2	334.3
	25,792.1	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 September 30, 2019 by \$2.3 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 sale was completed on November 1, 2019, subsequent to quarter end (note 17). As at September 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 September 30, 2019, the following assets and liabilities are classified as held for sale:

	September 30, 2019
	\$
Prepaid expenses and deposits	767.0
Inventories	2,856.0
Property, plant and equipment	20,446.4
Intangible assets	1,563.9
Assets held for sale	25,633.3
Current portion of reforestation obligations	807.3
Reforestation obligations	2,563.6
Liabilities held for sale	3,370.9

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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 \$0.7 million as summarized in the table below.

	April 1, 2019
	\$
Proceeds of disposition, net of transaction costs	14,693.6
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	(663.7)

The results for the three and nine months ended September 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 Sept 30,		Nine months ended Sept 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenue	-	25,387.6	27,149.7	124,681.2
Costs and expenses	-	(27,051.4)	(26,989.6)	(123,952.5)
Gain (loss) on disposal of business	87.2	-	(663.7)	-
Net income (loss) from discontinued operations	87.2	(1,663.8)	(503.6)	728.7
Cash flows from:				
Operating activities	-	(803.5)	2,656.5	1,496.1
Investing activities	-	(16.2)	(2.2)	(19.0)
Financing activities	-	(335.3)	(4,931.8)	517.0
Net increase (decrease) in cash	-	(1,155.0)	(2,277.5)	1,994.1

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

September 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 *	-	2,337.0	8,874.0	(1,901.4)	401.4	7.8	314.6	10,033.4
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)	(71,119.3)	-	1,267.8	-	-	-	(69,965.2)
Effect of foreign exchange revaluation	(126.7)	(6,458.5)	(32.8)	(23.7)	-	-	-	(6,641.7)
At September 30, 2019	7,054.5	278,596.8	8,310.4	1,706.8	131,004.4	7.8	716.7	427,397.4
<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	-	(17,270.7)	(1,630.5)	-	(3,527.0)	(1.6)	-	(22,429.8)
Disposals	-	0.5	-	-	-	-	-	0.5
Disposal of business (note 8)	-	426.8	28.4	-	-	-	-	455.2
Reclassified to assets held for sale (note 7)	-	49,518.8	-	-	-	-	-	49,518.8
Effect of foreign exchange revaluation	-	347.2	4.7	-	-	-	-	351.9
At September 30, 2019	-	(60,142.7)	(1,597.4)	-	(23,226.1)	(1.6)	-	(84,967.8)
<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 September 30, 2019	7,054.5	218,454.1	6,713.0	1,706.8	107,778.3	6.2	716.7	342,429.6

* Insurance proceeds receivable during the nine month period ended September 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

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

10. GOODWILL

	September 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	(4,578.1)	6,366.9
	157,989.8	163,811.9

11. BORROWINGS

	September 30, 2019	December 31, 2018
	\$	\$
Non-current		
Leases (a)	9,124.0	5,641.5
CP Partnership term loan (b)	61,454.3	63,357.1
Senior secured term loan (c)	47,680.2	192,932.8
	118,258.5	261,931.4
Revolving credit facility	-	23,679.5
Total non-current borrowings	118,258.5	285,610.9
Current		
Current portion of leases (a)	3,862.6	2,183.1
Current portion of CP Partnership term loan (b)	3,028.0	2,904.2
Current portion of senior secured term loan (c)	139,405.9	29,281.4
	146,296.5	34,368.7
Current portion of revolving credit facility	11,358.6	12,020.0
Total current borrowings	157,655.1	46,388.7
Total borrowings	275,913.6	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 September 30, 2019 is \$13.0 million (December 31, 2018 – \$7.8 million). Total payments for leases was \$1.2 million and \$3.4 million for the three and nine months ended September 30, 2019, respectively.

(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 September 30, 2019, CP Partnership held \$6.3 million of cash in restricted accounts (December 31, 2018 – \$8.6 million). The cash held in restricted accounts comprise 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 September 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 September 30, 2019, the Company has drawn \$11.4 million under the revolving credit facility (December 31, 2018 – \$42.2 million). As at September 30, 2019, no deferred financing costs were netted against the revolving credit facility (December 31, 2018 – \$6.5 million).

Unused availability under our revolving credit facility was approximately \$5.6 million at September 30, 2019.

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 2.75% in the applicable margin depending on the maximum total leverage ratio; removal of ability to utilize floating rates based on CDOR or US dollar LIBOR rate, 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.

In the third quarter of 2019, the Credit Facility was amended to, among other things, set certain milestones to provide for a further acceleration of repayment of the term loan which resulted in the reclassification of a large portion of the long-term debt as current.

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Subsequent to quarter end, on October 1, 2019, the Credit was amended to, among other things, provide additional short-term liquidity and waiver certain covenants and milestones. While the Company was in compliance with debt covenants under the Credit Facility for the period ended September 30, 2019, it continues to work collaboratively with lenders and intends to present and implement an acceptable divestment and restructuring plan (note 17). However, there can be no assurance that it will result or be able to provide an acceptable plan as required by the amendment.

As at September 30, 2019, deferred financing costs of \$13.0 million were netted against the senior secured term loan (December 31, 2018 – nil).

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
Public offering of common shares, net of issue costs	10,806	60,668.7
Issue of common shares on acquisition of Glenwood and Cross City Mills	9,273	60,276.4
Shares vested under share-based compensation plan during the nine months ended September 30, 2018	83	575.6
Balance at September 30, 2018	46,600	295,802.7
Public offering of common shares, net of issue costs	-	(41.5)
Issue of common shares on acquisition of Cross City and Glenwood Mills	-	(6,120.4)
Shares vested under share-based compensation plan during the period from October 1, 2018 to December 31 2018	10	31.3
Balance at December 31, 2018	46,610	289,672.1
Shares vested under share-based compensation plan during the nine months ended September 30, 2019	314	1,030.8
Balance at September 30, 2019	46,924	290,702.9

13. INCOME TAX

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

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Current	-	1.4	-	1.4
Deferred	(5,485.3)	1,019.3	(9,678.6)	5,230.9
	(5,485.3)	1,020.7	(9,678.6)	5,232.3

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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 Sept 30,		Nine months ended Sept 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Income (loss) before taxes	(22,124.9)	5,312.7	(47,284.7)	21,238.0
Income tax expense (recovery) at corporate rate of 27% (2018 – 27%)	(6,023.5)	1,434.5	(12,891.7)	5,734.3
Non-deductible (non-taxable) items for tax purposes	41.2	(408.2)	225.4	(421.2)
Rate differentials between jurisdictions	(78.9)	4.4	(2.6)	-
Change in deferred tax assets not recognized	654.2	-	2,981.8	(52.9)
Other	(78.3)	(10.0)	8.5	(27.9)
Total income tax expense (recovery)	(5,485.3)	1,020.7	(9,678.6)	5,232.3

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 September 30, 2019				
Sales to external customers	60,046.5	5,140.4	-	65,186.9
Operating income (loss)	(15,027.2)	1,782.1	(1,778.2)	(15,023.3)
Gain on disposal of assets	-	-	-	-
Finance costs and accretion	-	(1,106.4)	(6,024.6)	(7,131.0)
Gain on derivative financial instruments	27.7	-	-	27.7
Foreign exchange loss on long-term debt	-	-	(2,436.7)	(2,436.7)
Foreign exchange loss	-	(1.0)	(230.4)	(231.4)
Other income	2,585.8	-	(3.2)	2,582.6
Income tax recovery	-	-	5,485.3	5,485.3
Gain from discontinued operations	87.2	-	-	87.2
Net income (loss)	(12,326.5)	674.7	(4,987.8)	(16,639.6)
Depreciation and amortization	5,010.0	941.4	97.7	6,049.1
Capital expenditures	493.3	730.3	(24.9)	1,198.7
Identifiable assets	346,652.1	120,821.0	172,434.5	639,907.6
Three months ended September 30, 2018				
Restated*				
Sales to external customers	151,006.8	6,158.8	-	157,165.6
Operating income (loss)	10,327.1	2,816.3	(2,026.2)	11,117.2
Gain on disposal of assets	-	-	-	-
Finance costs and accretion	-	(1,174.9)	(5,146.9)	(6,321.8)
Gain on derivative financial instruments	2,089.3	-	-	2,089.3
Foreign exchange gain on long-term debt	-	-	2,508.0	2,508.0
Foreign exchange loss	-	(2.6)	(272.3)	(274.9)
Acquisition costs	-	-	(2,141.3)	(2,141.3)
Income tax expense	-	-	(1,020.7)	(1,020.7)
Loss from discontinued operations	(1,066.4)	-	(597.4)	(1,663.8)
Net income (loss)	11,350.0	1,638.8	(8,696.8)	4,292.0
Depreciation and amortization	6,316.6	663.3	33.2	7,013.1
Acquisition of Glenwood and Cross City Mills	103,220.3	-	-	103,220.3
Capital expenditures	3,142.2	1,159.4	128.5	4,430.1
Identifiable assets	407,570.6	127,442.2	212,739.6	747,752.4

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	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
Nine months ended September 30, 2019				
Sales to external customers	276,868.7	17,784.8	-	294,653.5
Operating income (loss)	(47,626.1)	5,385.4	(5,659.3)	(47,900.0)
Gain on disposal of assets	45.6	-	-	45.6
Finance costs and accretion	-	(3,340.9)	(17,346.8)	(20,687.7)
Loss on derivative financial instruments	(221.7)	-	-	(221.7)
Foreign exchange gain on long-term debt	-	-	6,449.2	6,449.2
Foreign exchange gain (loss)	-	(3.3)	326.0	322.7
Acquisition costs	-	-	(4.6)	(4.6)
Other income	15,218.6	-	(3.2)	15,215.4
Income tax recovery	-	-	9,678.6	9,678.6
Gain (loss) from discontinued operations	39.0	-	(542.6)	(503.6)
Net income (loss)	(32,544.6)	2,041.2	(7,102.7)	(37,606.1)
Depreciation and amortization	18,980.3	3,546.6	182.3	22,709.2
Capital expenditures	406.1	716.0	29.5	1,151.6
Identifiable assets	346,652.1	120,821.0	172,434.5	639,907.6
Nine months ended September 30, 2018				
Restated*				
Sales to external customers	370,419.8	18,774.3	-	389,194.1
Operating income (loss)	31,173.1	6,191.8	(5,286.9)	32,078.0
Gain on disposal of assets	7.5	-	-	7.5
Finance costs and accretion	-	(3,326.7)	(6,845.0)	(10,171.7)
Loss on derivative financial instruments	(1,292.4)	-	-	(1,292.4)
Foreign exchange gain on long-term debt	-	-	2,508.0	2,508.0
Foreign exchange loss	-	(6.6)	(472.2)	(478.8)
Acquisition costs	-	-	(2,141.3)	(2,141.3)
Income tax expense	-	-	(5,232.3)	(5,232.3)
Income from discontinued operations	719.8	-	8.9	728.7
Net income (loss)	30,608.0	2,858.5	(17,460.8)	16,005.7
Depreciation and amortization	13,594.8	3,275.6	115.9	16,986.3
Acquisition of Glenwood and Cross City Mills	103,220.3	-	-	103,220.3
Capital expenditures	15,538.3	2,233.1	216.4	17,987.8
Identifiable assets	407,570.6	127,442.2	212,739.6	747,752.4

Revenues by geographic area were as follows:

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
United States	48,054.9	100,227.9	214,090.7	220,307.3
Canada	12,349.9	26,436.9	46,979.5	87,842.8
Japan	2,743.9	16,261.0	17,648.6	41,240.1
China	2,038.2	9,527.8	14,878.3	28,653.3
Other	-	4,712.0	1,056.4	11,150.6
	65,186.9	157,165.6	294,653.5	389,194.1

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Non-current assets by geographic area were as follows:

	September 30, 2019	December 31, 2018
	\$	\$
United States	361,961.1	381,691.6
Canada	145,538.7	173,026.7
	507,499.8	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	September 30, 2019	December 31, 2018
		\$	\$
Financial assets			
Fair value through profit and loss			
Derivative financial instruments	Level 2	170.7	1,193.3
		170.7	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 \$1.3 million in the third quarter of 2019 and \$7.5 million for the nine months ended September 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\$34.1 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.

During the year, the Company completed the sales to a third party, for gross proceeds of US\$13.9 million, of its right to refunds on aggregate duties paid of US\$33.1 million during the period from April 28, 2017 to June 30, 2019. The proceeds of disposition, net of transaction costs, totaled \$17.5 million, of which \$2.3 million was credited to accounts receivable to clear a previous overpayment of duty deposits and \$5.2 million was recorded as other income in the condensed consolidated statement of net income.

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.

17. SUBSEQUENT EVENT

Completion of amendment to Credit Facility (note 11)

On October 1, 2019, the Company amended the Credit Facility to, among other things, provide additional short-term liquidity and waive certain covenants and milestones. Pursuant to the terms of the amendment, the Company is required to provide an asset divestment and restructuring plan that is acceptable to its senior lenders on or before November 25, 2019, which could involve asset divestitures in addition to the sale of the Fort St. James BC assets (note 7). If the Company does not present a plan that is acceptable to its lenders by such date, it will be an event of default under the Credit Facility and unless waived, the Company would commence consensual voluntary proceedings under applicable debtor relief laws.

While the Company was in compliance with its debt covenants under the Credit Facility for the period ended September 30, 2019, it continues to work collaboratively with lenders and intends to present and implement an acceptable divestment and restructuring plan. However, there can be no assurance that it will result in or be able to provide an acceptable plan as required by the amendment.

Completion of sale of Fort St. James Assets

On November 1, 2019, the Company completed the sale of the Fort St. James sawmill complex and associated forest licence (note 7). The consideration for the transaction, following certain customary adjustments, was approximately \$38.6 million. The proceeds of the transaction were used primarily to retire debt, to provide additional liquidity and to pay transaction related costs.