Consolidated financial statements of

Conifex Timber Inc.

December 31, 2019 and 2018

Independent auditor's report

To the Shareholders of Conifex Timber Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Conifex Timber Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Neale.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 11, 2020

Conifex Timber Inc.

Consolidated balance sheets

As at December 31, 2019 and 2018

(thousands of Canadian dollars)	Notes	**As at December 31, 2019**	As at December 31, 2018
		$	$
Assets			
Current assets			
Cash		**919.5**	16,338.6
Cash - restricted	15	**6,725.8**	8,613.8
Trade and other receivables		**13,822.6**	38,364.5
Prepaid expenses and deposits		**12,995.5**	26,681.4
Inventories	6	**15,288.5**	67,413.1
Assets held for sale	7	**236,510.2**	883.5
Current assets		**286,262.1**	158,294.9
Property, plant and equipment	9	**137,265.6**	382,095.8
Intangible assets	10	**3,837.1**	5,361.0
Goodwill	10	**1,875.0**	163,811.9
Long-term investments and other	11	**22,737.7**	25,917.8
Deferred income tax assets	23	**9,507.9**	3,763.7
Total assets		**461,485.4**	739,245.1
Liabilities			
Current liabilities			
Trade payables, accrued liabilities and other payables		**35,781.2**	37,743.5
Current portion of reforestation obligations	12	**3,124.3**	6,128.4
Employee liabilities		**409.9**	2,452.8
Current portion of revolving credit facility	15	**11,398.7**	12,020.0
Current portion of long-term debt	15	**182,558.6**	34,368.7
Liabilities held for sale	6	**21,525.2**	-
Current liabilities		**254,797.9**	92,713.4
Reforestation obligations	12	**7,857.3**	7,164.0
Environmental liabilities	13	**1,153.7**	1,301.6
Other long-term liabilities	14	**9,811.6**	10,474.0
Revolving credit facility	15	**-**	23,679.5
Long-term debt	15	**63,251.8**	261,931.4
Deferred income tax liabilities	23	**-**	1,879.3
Non-current liabilities		**82,074.4**	306,429.8
Total liabilities		**336,872.3**	399,143.2
Equity			
Share capital	16	**290,702.9**	289,672.1
Contributed surplus		**16,722.6**	16,854.8
Retained earnings (deficit)		**(183,366.5)**	16,862.8
Accumulated other comprehensive income		**554.1**	16,712.2
Total equity		**124,613.1**	340,101.9
Total liabilities and equity		**461,485.4**	739,245.1

Refer to liquidity risk (note 2) and **subsequent event** (note 31)

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

Conifex Timber Inc.

Consolidated statements of net income (loss) and comprehensive income (loss)
Years ended December 31, 2019 and 2018

		Year ended December 31,	
(thousands of Canadian dollars)	Notes	**2019**	2018
		$	$
Revenue	19	**157,403.9**	379,072.6
Costs and expenses			
Cost of goods sold		**149,897.0**	268,139.6
Freight and distribution costs		**24,234.1**	51,362.2
Softwood lumber duties	30	**8,885.3**	24,446.9
Selling, general and administrative	20	**11,990.5**	15,328.3
Restructuring charges		**2,634.7**	-
		197,641.6	359,277.0
Operating income (loss)		**(40,237.7)**	19,795.6
Gain on disposal of assets	5	**15,556.5**	20.5
Finance costs and accretion	21	**(42,095.0)**	(16,643.9)
Loss on derivative financial instruments		**(56.5)**	(484.0)
Other income (expense)	22	**16,293.0**	(191.3)
Foreign exchange gain (loss) on long-term debt		**8,883.1**	(8,793.5)
Foreign exchange gain (loss)		**408.6**	(109.7)
Acquisition costs		**-**	(2,189.4)
		(1,010.3)	(28,391.3)
Loss before taxes		**(41,248.0)**	(8,595.7)
Income tax expense (recovery):	23		
Current		**592.3**	-
Deferred		**(11,399.6)**	(1,284.5)
		(10,807.3)	(1,284.5)
Loss from continuing operations		**(30,440.7)**	(7,311.2)
Income (loss) from discontinued operations, net of tax	8	**(169,788.6)**	257.0
Net loss		**(200,229.3)**	(7,054.2)
Other comprehensive income (loss), net of tax			
Foreign exchange translation of foreign operations, net of tax		**(16,158.1)**	16,712.2
Other comprehensive income (loss), net of tax		**(16,158.1)**	16,712.2
Total comprehensive income (loss) for the year		**(216,387.4)**	9,658.0
Net income (loss) per share, basic and diluted (in dollars):	24		
Net loss per share from continuing operations		**(0.65)**	(0.20)
Net income (loss) per share from discontinued operations		**(3.63)**	0.01
		(4.28)	(0.19)

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

Conifex Timber Inc.

Consolidated statements of changes in equity
Years ended December 31, 2019 and 2018

(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 loss for the year ended December 31, 2018	-	-	(7,054.2)	-	(7,054.2)
Public offering of common shares, net of issue costs	60,627.2	-	-	-	60,627.2
Issue of common shares on acquisition of Cross City and Glenwood Mills	54,156.0	-	-	-	54,156.0
Issue of warrants on acquisition of Glenwood and Cross City Mills	-	4,969.3	-	-	4,969.3
Issue of common shares upon vesting of share-based payment	606.9	(580.0)	-	-	26.9
Recognition of share-based payments	-	1,020.9	-	-	1,020.9
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 year ended December 31, 2019	**-**	**-**	**(200,229.3)**	**-**	**(200,229.3)**
Issue of common shares upon vesting of share-based payment	**1,030.8**	**(1,030.8)**	**-**	**-**	**-**
Recognition of share-based payments	**-**	**898.6**	**-**	**-**	**898.6**
Foreign exchange translation of foreign operations, net of tax	**-**	**-**	**-**	**(16,158.1)**	**(16,158.1)**
Balance at December 31, 2019	**290,702.9**	**16,722.6**	**(183,366.5)**	**554.1**	**124,613.1**

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

Conifex Timber Inc.

Consolidated statements of cash flows
Years ended December 31, 2019 and 2018

(thousands of Canadian dollars)	Year ended December 31, 2019	2018
	$	$
Cash flows from operating activities		
Net loss	**(30,440.7)**	(7,311.2)
Items not affecting cash:		
Amortization and depreciation	**13,229.7**	15,609.2
Change in mark-to-market value of lumber price derivatives	**(47.6)**	(1,169.1)
Change in reforestation obligations	**1,069.8**	220.7
Finance costs and accretion	**42,095.0**	16,643.9
Income tax recovery	**(10,807.3)**	(1,284.5)
Share-based compensation	**898.6**	1,049.3
Load Displacement Agreement accretion	**(627.4)**	(627.4)
Gain on disposal of assets	**(15,556.5)**	(20.5)
Foreign exchange gain (loss) on long-term debt	**(8,883.1)**	8,793.5
	(9,069.5)	31,903.9
Change in:		
Trade and other receivables	**9,651.4**	5,559.2
Prepaid expenses and deposits	**(1,186.6)**	(4,604.8)
Inventories	**19,593.6**	6,589.2
Trade payables, accrued liabilities and other payables	**9,107.1**	(2,769.3)
Environmental liabilities	**(147.9)**	(37.5)
Employee liabilities	**(1,496.8)**	(2.6)
Operating cash flows from discontinued operations	**16,447.2**	15,055.2
Net cash provided from operating activities	**42,898.5**	51,693.3
Cash flows from investing activities		
Additions to property, plant and equipment	**(2,469.3)**	(13,003.0)
Addition of Cross City and Glenwood Mills	**-**	(221,906.5)
Net proceeds from insurance claim settlement	**889.6**	-
Proceeds on disposal of assets, net	**37,404.1**	68.1
Investing cash flows from discontinued operations	**11,358.0**	(15,296.4)
Net cash provided from (used in) investing activities	**47,182.4**	(250,137.8)
Cash flows from financing activities		
Proceeds of public offering and private placement, net	**-**	60,625.7
Proceeds of term loan facilities	**-**	286,100.5
Proceeds of senior secured revolving credit facility	**-**	43,810.7
Proceeds (repayment) of leases	**(1,231.0)**	365.8
Repayment of operating loan	**-**	(1,600.0)
Repayment of revolving credit facility	**(30,480.9)**	(97,487.1)
Repayment of term loans	**(38,276.0)**	(71,051.4)
Financing fees	**(12,437.5)**	(9,113.7)
Interest paid	**(22,086.6)**	(13,425.7)
Financing cash flows from discontinued operations	**(2,685.2)**	(1,293.9)
Net cash provided from (used in) financing activities	**(107,197.2)**	196,930.9
Net decrease in cash	**(17,116.3)**	(1,513.6)
Foreign exchange effect on cash	**(190.8)**	324.8
Cash and restricted cash, beginning of year	**24,952.4**	26,141.2
Cash and restricted cash, end of year	**7,645.3**	24,952.4

The accompanying notes are an integral part of these consolidated 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

In order to address liquidity challenges encountered during the year, the Company completed the orderly sale of certain assets as follows:

- the sale of Lignum Forest Products LLP (“Lignum”) in April 2019 for US$11.5 million (note 8)
- the sale of the Fort St. James sawmill in November 2019 for $38.7 million (note 5)
- the forward sale of interests in certain countervailing (“CV”) and anti-dumping (“AD”) duties in August 2019 for $17.5 million (note 30)
- the subsequent sale of US sawmill assets in February 2020 for US$176.0 million (note 31)

The proceeds of these asset sales were used to pay off the Company’s revolving credit facility and senior secured term loan (note 15) with the balance of the borrowings now being limited to the Conifex Power Limited Partnership (“CP Partnership”) term loan secured by the Company’s bioenergy assets in Mackenzie.

Subsequent to these liquidations, the Company had unrestricted cash of approximately $20.0 million.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Statement of compliance

The consolidated financial statements of Conifex have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved by the Board of Directors on March 10, 2020.

3.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

3.3 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses are eliminated on consolidation, where appropriate. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Joint ventures are accounted for using the equity method.

3.4 Business combinations

The Company applies the acquisition method to account for business combinations. Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. Acquisition-related costs are expensed as incurred.

3.5 Functional and presentation currency

The Canadian dollar is the functional and presentation currency of the Company.

3.6 Foreign currency translation

Foreign currency denominated monetary assets and liabilities of the Company are translated using the rate of exchange prevailing at the reporting date. Revenues and expenses are measured at average rates during the period. Gains or losses on translation of these items are included in earnings.

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

3.7 Changes in significant accounting policies

Effective January 1, 2019, the Company has adopted IFRS 16, *Leases*, using the modified retrospective method. The new standard replaces International Accounting Standards ("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 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 consolidated balance sheet and an additional $8.5 million of liabilities in connection with the leases for office spaces, mobile and other equipment.

3.8 Cash

In the consolidated statement of cash flows, cash includes cash on hand, deposits held with banks, and other short-term highly liquid investments.

3.9 Financial instruments

(a) Non-derivative financial instruments

The Company measures non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market at amortized cost using the effective interest rate method. The amortized costs are reduced by any impairment losses. These financial assets are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the asset have been impacted.

(b) Derivative financial instruments

The Company utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and interest rate variability. Lumber derivatives are classified as financial assets at fair value through profit and loss ("FVTPL"). These financial assets are initially recognized at fair value on the date a lumber derivative contract is entered into and are subsequently re-measured at their fair value. The fair values are determined by using observable market inputs for identical assets and liabilities and thus reflect the estimated amount that the Company would have paid or received if required to settle all outstanding contracts at period end. The resulting gain or loss is recognized as a gain (loss) on lumber derivative instruments in the statement of net income each period unless the lumber derivative is designated as a hedging instrument under IFRS. If the lumber derivative is designated as a hedging instrument, any unrealized gains or losses are deferred and recognized in earnings when the related hedge transaction occurs.

(c) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction from the proceeds.

3.10 Inventories

Logs and lumber inventories are valued at the lower of average cost and net realizable value. The cost of logs and lumber comprises all costs that relate to purchasing, harvesting and delivery of the logs to their present location, plus costs of production, including labour, overhead and amortization. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost for completion and applicable variable selling expenses.

Operating and maintenance supplies are valued at the lower of average cost and replacement cost.

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

3.11 Goodwill and intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill impairment is assessed by comparing the fair value of the cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill. CGUs are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU exceeds its recoverable amount, the recoverable amount of the CGU's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(b) Other intangible assets

Other intangible assets, comprising forestry licences and software licences, are stated at cost less accumulated amortization.

The forestry licences are amortized on a straight-line basis over 60 years. Software licences are amortized on a straight-line basis over their useful lives.

3.12 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets classified as held for sale are not depreciated. All other assets are depreciated on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Estimated useful lives of property, plant and equipment are reflected with the following rates:

Buildings and fixtures	2% - 5%
Computer hardware	10% - 50%
Machinery and equipment	5% - 50%
Mobile equipment	20% - 50%
Roads and bridges	10% - 50%

The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over their useful lives. These periods are assessed at least annually to ensure that they continue to approximate the useful lives of the related assets. The carrying amount of an asset is written down if it is determined to be greater than the asset's estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

3.13 Government grants

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are recorded as a reduction to the cost base of the related asset and are credited to the income statement through the recognition of a lower depreciation expense than would be recognized in the absence of the grant.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

3.14 Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped into CGUs. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.15 Employee benefits

The Company has a defined contribution plan, which is a post-employment benefit plan under which the Company makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense when they are earned.

3.16 Provisions

Provisions for reforestation, environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is charged to the income statement in the same expense category as the original expense related to the obligation.

3.17 Share-based compensation

The Company operates a long-term performance incentive plan and a stock option plan which provide for options, restricted share units, performance share units and deferred share units to be awarded as consideration for services from directors, employees and consultants. The fair value of the equity instrument and the employee services received in exchange for the grant of the options or share awards is measured at the grant date.

The share awards and stock options vest over multiple periods. The fair value of each tranche is considered to be a separate grant based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period based on the Company's estimate of equity instruments that will eventually vest.

3.18 Revenue recognition

Revenue from the sale of goods is measured based on the transaction price, net of rebates and discounts, as specified in contracts with customers. The Company recognizes revenue when transfer of control occurs.

Amounts charged to customers for freight and distribution are recognized as revenue as the services are provided. Freight and distribution costs and softwood lumber duties incurred by the Company are recorded to cost of sales in the income statement.

(a) Lumber segment

The Company markets and sells a range of lumber grades by various dimensions and by-products.

For lumber sales, revenue is recognized when control is transferred to the customer. The timing of the transfer of control varies depending on the individual terms of the contract of sale. The transfer of control typically occurs at the time lumber is loaded onto the mode of transportation. The amount of revenue recognized is adjusted for discounts related to early payment and rebates related to purchase volumes at the time that control is transferred.

For lumber by-products sales, revenue is recognized when control over by-products is transferred to the customer. The timing of the transfer of control varies depending on the individual terms of the contract of sale. The transfer of control typically occurs at the time the by-products leave the Company's sawmill. The amount of revenue is recognized at that point in time. The Company does not offer discounts or rebates on by-products sales.

For transportation services, revenue is recognized as the service is provided to the customer. The Company does not offer discounts or rebates on transportation services.

(b) Bioenergy segment

Revenue is recognized when control over electrical energy is transferred to the customer. The timing of the transfer of control and recognition of revenue occurs at the time electrical energy is generated as agreed to within the Electricity Purchase Agreement and Load Displacement Agreement. The Company does not offer discounts or rebates on electrical energy sales.

3.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.21 Income taxes

The income tax expense for the period comprises current and deferred tax.

Current income tax is the expected tax payable on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

3.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team that makes strategic decisions.

3.23 Critical judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make critical judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Such differences in estimates are recognized when realized on a prospective basis.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgements have been applied in a manner consistent with prior periods. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include valuation of inventory, income taxes, provision for accrued liabilities, environmental and reforestation obligations, share-based compensation, impairment and contingencies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.24 Accounting standards issued and not yet adopted

There are no accounting standards, amendments or interpretations to existing standards issued but not yet effective which are expected to have a material impact on our consolidated financial statements.

3.25 Reclassification of comparative amounts

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

4. 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)

5. SALE OF FORT ST. JAMES SAWMILL

On June 24, 2019, the Company entered into a definitive purchase agreement with a third party for the sale of its Fort St. James sawmill and associated forest license ("FSJ Sawmill Assets"). The aggregate purchase price was $38.7 million, following certain customary adjustments. Approval from the BC Minister of Forests, Lands, Natural Resource Operations and Rural Development of the sale was granted on October 28, 2019. The sale of FSJ Sawmill Assets was completed on November 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 gain on disposition of the FSJ Sawmill Assets is $15.5 million as summarized in the table below.

	November 1, 2019
	$
Proceeds of disposition, net of transaction costs	**38,722.6**
Book value of net assets disposed:	
Prepaid expenses	**857.1**
Inventories	**2,789.0**
Intangible assets	**1,563.9**
Property, plant and equipment	**21,402.6**
Trade payables, accrued liabilities and other payables	**(5.1)**
Reforestation obligations	**(3,380.7)**
Net assets disposed	**23,226.8**
Gain on disposal of FSJ Sawmill Assets	**15,495.8**

6. INVENTORIES

	2019	2018
	$	$
Logs	**6,033.4**	16,324.7
Lumber	**4,699.2**	39,342.2
Supplies	**4,081.8**	11,411.9
By-products	**474.1**	334.3
	15,288.5	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 December 31, 2019 by $2.1 million (2018 – $4.0 million). Write-downs are included in cost of goods sold when incurred.

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

7. ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

On December 23, 2019, the Company entered into a definitive purchase agreement with a third party for the sale of its US sawmill business, consisting of the Cross City, El Dorado and Glenwood sawmills and related operations for an aggregate purchase price of US$176.0 million, including working capital which has been estimated as US$13.0 million. The sale was completed on February 1, 2020, subsequent to year end (note 31). As at December 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. An impairment to goodwill of $142.9 million was recorded on the reclassification as the fair value less costs to sell exceeded the carrying amount.

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

	December 31, 2019
	$
Cash	**2,070.7**
Trade and other receivables	**5,871.3**
Prepaid expenses and deposits	**5,758.5**
Inventories	**12,260.6**
Property, plant and equipment	**199,265.3**
Intangible assets	**290.2**
Goodwill	**10,993.6**
Assets held for sale	**236,510.2**
Trade payables, accrued liabilities and other payables	**13,921.5**
Employee liabilities	**78.5**
Current portion of long-term debt	**2,703.2**
Long-term debt	**4,822.0**
Liabilities held for sale	**21,525.2**

8. DISCONTINUED OPERATIONS

A discontinued operation is a component of the Company's business, the operations and cashflows of which can be clearly distinguished from the rest of the Company and which:

- Represents a separate major line of business or geographic area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with the view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When the operations are classified as a discontinued operation, the consolidated statement of cash flows and consolidated statement of net income and other comprehensive income are re-presented as if the operation has been discontinued from the start of the comparative year.

Accordingly, the comparative consolidated statement of net income and other comprehensive income and consolidated statement of cash flows have been reclassified to present discontinued operations separately from continuing operations and includes items that met the definition of held for sale in 2018 and 2019.

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

The results of the discontinued operations are as follows:

	Lumber Wholesale	Transporation Services	US Sawmills	Total
	$	$	$	$
Year ended December 31, 2019				
Revenue	**27,149.7**	**11,135.4**	**186,444.0**	**224,729.1**
Costs and expenses	**(26,385.1)**	**(10,684.4)**	**(209,281.1)**	**(246,350.6)**
Operating income (loss)	**764.6**	**451.0**	**(22,837.1)**	**(21,621.5)**
Other expenditures	**(604.5)**	**(83.2)**	**69.2**	**(618.5)**
Loss on impairment of goodwill	**-**	**(191.5)**	**(142,917.3)**	**(143,108.8)**
Loss on disposal of business	**(663.7)**	**-**	**-**	**(663.7)**
Income (loss) before taxes	**(503.6)**	**176.3**	**(165,685.2)**	**(166,012.5)**
Income tax expense	**-**	**12.4**	**3,763.7**	**3,776.1**
Net income (loss) from discontinued operations	**(503.6)**	**163.9**	**(169,448.9)**	**(169,788.6)**
Cash flows from:				
Operating activities	**2,656.6**	**2,246.4**	**11,544.2**	**16,447.2**
Investing activities	**14,691.3**	**-**	**(3,333.3)**	**11,358.0**
Financing activities	**(184.9)**	**(41.0)**	**(2,459.3)**	**(2,685.2)**
Net increase (decrease) in cash	**17,163.0**	**2,205.4**	**5,751.6**	**25,120.0**
Year ended December 31, 2018				
Revenue	144,551.6	19,439.6	126,854.9	290,846.1
Costs and expenses	(143,368.6)	(18,474.0)	(130,863.9)	(292,706.5)
Operating income (loss)	1,183.0	965.6	(4,009.0)	(1,860.4)
Other income (expenditures)	508.8	146.6	(2,242.0)	(1,586.6)
Income (loss) before taxes	1,691.8	1,112.2	(6,251.0)	(3,447.0)
Income tax expense (recovery)	-	59.7	(3,763.7)	(3,704.0)
Net income (loss) from discontinued operations	1,691.8	1,052.5	(2,487.3)	257.0
Cash flows from:				
Operating activities	3,610.2	786.6	10,658.4	15,055.2
Investing activities	(19.0)	(3.3)	(15,274.1)	(15,296.4)
Financing activities	(726.1)	-	(567.8)	(1,293.9)
Net increase (decrease) in cash	2,865.1	783.3	(5,183.5)	(1,535.1)

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

8.1 Lumber wholesale

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)**

8.2 Transportation services business

During the third quarter of 2019, management committed to a plan to discontinue operations of a wholly-owned subsidiary which operated in the transportation services business to focus on the Company's lumber segment. In October 2019, the Company ceased providing logistics services to external parties.

8.3 US sawmill business

During the fourth quarter of 2019, the Company entered into a securities purchase agreement with a third party to divest its US sawmill business (note 7). The sale was completed on February 1, 2020 (note 31). Following the completion of the sale, the Company will no longer have operations in the US South geographic area.

(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	Right of Use Assets	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 *	-	8,215.5	9,024.9	(575.4)	1,149.2	7.8	(384.8)	**17,437.2**
Disposals	(113.7)	(71,786.2)	(252.6)	-	-	-	-	**(72,152.5)**
Disposal of business (note 8)	-	(453.2)	(530.8)	-	-	-	-	**(984.0)**
Reclassified to assets held for sale (note 7) *	(4,258.5)	(217,195.5)	(4,641.1)	(1,319.4)	-	-	-	**(227,414.5)**
Effect of foreign exchange revaluation	(182.4)	(9,286.8)	(100.7)	(42.9)	-	-	-	**(9,612.8)**
At December 31, 2019	**2,740.3**	**63,789.9**	**3,499.7**	**426.4**	**131,752.2**	**7.8**	**17.3**	**202,233.6**
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	-	(22,981.4)	(2,166.6)	-	(5,289.3)	(2.2)	-	**(30,439.5)**
Disposals	-	48,907.6	101.8	-	-	-	-	**49,009.4**
Disposal of business (note 8)	-	426.8	28.4	-	-	-	-	**455.2**
Reclassified to assets held for sale (note 7)	-	26,897.8	1,251.5	-	-	-	-	**28,149.3**
Effect of foreign exchange revaluation	-	702.3	19.7	-	-	-	-	**722.0**
At December 31, 2019	**-**	**(39,212.2)**	**(765.2)**	**-**	**(24,988.4)**	**(2.2)**	**-**	**(64,968.0)**
Carrying amount								
At December 31, 2018	7,294.9	261,130.8	-	2,364.1	110,903.9	-	402.1	**382,095.8**
At December 31, 2019	**2,740.3**	**24,577.7**	**2,734.5**	**426.4**	**106,763.8**	**5.6**	**17.3**	**137,265.6**

* Insurance proceeds received during the year ended December 31, 2019 of $0.9 million (2018 – nil) have been netted against the capital work in progress additions.

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

10. GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

	2019	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
Disposal of business (note 8)	**(1,244.1)**	-
Reclassification to assets held for sale (note 8)	**(154,102.4)**	-
Effect of foreign exchange revaluation	**(6,590.4)**	6,366.9
	1,875.0	163,811.9

The Company has allocated $1.9 million of goodwill to a CGU made up of the Canadian operations and $11.0 million of goodwill to a CGU made up of the US operations based on purchase price allocations when the related assets were acquired (2018 – $3.3 million and $160.5 million, respectively). Goodwill associated with the US operations are included in assets held for sale (note 7). The recoverable amount of goodwill for the US operation CGU has been determined based on the estimated fair value less costs to sell.

Based upon management's analysis, an impairment to goodwill of $0.2 million in respect of the Canadian operations and $142.9 million for the US operations has been recognized in loss from discontinued operations during the year (note 8).

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

(b) Intangible assets

	Forestry licences	Software licences	Total
	$	$	**$**
Cost			
At December 31, 2017	5,983.5	739.7	**6,723.2**
Net additions	-	418.5	**418.5**
Effect of foreign exchange revaluation	-	3.0	**3.0**
At December 31, 2018	5,983.5	1,161.2	**7,144.7**
Net additions	1,275.0	214.8	**1,489.8**
Disposals	(1,959.4)	(175.1)	**(2,134.5)**
Reclassification of discontinued operations	-	(490.9)	**(490.9)**
Effect of foreign exchange revaluation	-	(15.7)	**(15.7)**
At December 31, 2019	**5,299.1**	**694.3**	**5,993.4**
Accumulated amortization			
At December 31, 2017	(1,005.9)	(484.9)	**(1,490.8)**
Amortization charge for the year	(99.7)	(192.8)	**(292.5)**
Effect of foreign exchange revaluation	-	(0.4)	**(0.4)**
At December 31, 2018	(1,105.6)	(678.1)	**(1,783.7)**
Amortization charge for the year	(888.0)	(260.9)	**(1,148.9)**
Disposals	407.5	163.1	**570.6**
Reclassification of discontinued operations	-	200.7	**200.7**
Effect of foreign exchange revaluation	-	5.0	**5.0**
At December 31, 2019	**(1,586.1)**	**(570.2)**	**(2,156.3)**
Carrying amount			
At December 31, 2018	4,877.9	483.1	5,361.0
At December 31, 2019	**3,713.0**	**124.1**	**3,837.1**

11. LONG-TERM INVESTMENTS AND OTHER

	2019	2018
	$	$
Joint venture investment	**20,000.0**	20,000.0
Timber inventory development	**2,232.9**	2,233.0
Deposits and long-term receivables (note 30)	**504.8**	3,684.8
	22,737.7	25,917.8

The Company's 50% ownership interest in a company which holds a forestry licence with an annual timber harvest of 300,000 m^3 is classified as a joint venture. At December 31, 2019, the carrying value of the equity investment is $20.0 million (2018 – $20.0 million).

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

12. REFORESTATION OBLIGATIONS

	2019	2018
	$	$
Reforestation obligations		
Current	**3,124.3**	6,128.4
Non-current	**7,857.3**	7,164.0
	10,981.6	13,292.4

	2019	2018
	$	$
Balance at beginning of year	**13,292.4**	13,071.8
Additional provisions recognized	**3,911.7**	5,811.1
Reductions arising from payment	**(2,410.9)**	(5,309.5)
Change arising from re-measurement or settlement without cost	**(430.9)**	(281.0)
Disposal of obligation (note 5)	**(3,380.7)**	-
	10,981.6	13,292.4

The total undiscounted amount of the future estimated expenditures required to settle the reforestation obligation at December 31, 2019 is $12.2 million (2018 – $14.4 million). The reforestation expenditures are expected to occur over the next one to 20 years and have been discounted at a risk-free interest rate of 3% (2018 – 3%). Reforestation expenses resulting from obligations arising from current year activities, changes in estimated future expenses and accretion of the discount are included in cost of sales for the year.

13. ENVIRONMENTAL LIABILITIES

	2019	2018
	$	$
Balance at beginning of year	**1,301.6**	1,339.1
Reductions arising from payment	**(167.1)**	(94.8)
Change arising from re-measurement or settlement without cost	**19.2**	57.3
	1,153.7	1,301.6

14. OTHER LONG-TERM LIABILITIES

	2019	2018
	$	$
Other liabilities	**160.7**	195.7
Deferred revenue	**9,650.9**	10,278.3
	9,811.6	10,474.0

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

Deferred revenue of $9.7 million (2018 – $10.3 million) comprises the incentive funds drawn under the Load Displacement Agreement (“LDA”) with BC Hydro and is secured by letters of credit totaling $7.2 million (2018 – $7.2 million). The incentive funding is recognized in earnings over the term of the LDA. The incentive funding began on April 30, 2015 and has a term of 20 years. The Company recognized $0.6 million (2018 – $0.6 million) of the incentive funding as revenue during the year.

15. BORROWINGS

	2019	2018
	$	$
Non-current		
Leases (a)	**3,045.2**	5,641.5
CP Partnership term loan (b)	**60,206.6**	63,357.1
Senior secured term loan (c)	**-**	192,932.8
	63,251.8	261,931.4
Revolving credit facility (c)	**-**	23,679.5
Total non-currrent borrowings	**63,251.8**	285,610.9
Current		
Current portion of leases (a)	**1,514.3**	2,183.1
Current portion of CP Partnership term loan (b)	**3,085.0**	2,904.2
Current portion of senior secured term loan (c)	**177,959.3**	29,281.4
	182,558.6	34,368.7
Current portion of revolving credit facility (c)	**11,398.7**	12,020.0
Total current borrowings	**193,957.3**	46,388.7
Total borrowings	**257,209.1**	331,999.6

The aggregate amount of contractual cash outflows for borrowings, which reflects payments in full before accretion, is as follows:

	Amount
	$
2020	**194,259.5**
2021	**4,544.3**
2022	**4,425.5**
2023	**4,237.2**
2024	**4,258.2**
Thereafter	**48,053.5**
	259,778.2

(a) Leases

Leases are for office spaces, mobile and other equipment. The leases expire between 2020 and 2024 and the weighted average incremental borrowing rate applied at January 1, 2019 was 5.7% per annum. The principal balance outstanding at December 31, 2019 is $4.6 million (2018 – $7.8 million).

Interest expense on lease obligations for the year ended December 31, 2019 was $0.2 million (2018 – nil). Total payments for leases, including interest, in the year was $1.6 million (2018 – $0.5 million).

(b) CP Partnership term loan

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. On December 4, 2019, an amendment to the CP Partnership Term Loan resulted in a temporary increase in the fixed rate interest rate of 0.5% applicable for the period from the amendment date to the earlier of June 30, 2020, subject to the repayment of the senior secured credit facility (note 15(c)), or January 31, 2021.

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.

Under the terms of the CP Partnership Term Loan agreement, a distribution test must be met for the cash held by CP Partnership to be available to the Company's other operations. CP Partnership was in compliance with debt covenants under the CP Partnership Term Loan and met the distribution conditions for the period ended December 31, 2019.

As at December 31, 2019, CP Partnership held $6.7 million of cash in restricted accounts (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 $2.2 million were netted against the CP Partnership Term Loan as at December 31, 2019 (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.

As at December 31, 2019, deferred financing costs of $0.3 million were netted against the senior secured credit facility (2018 – $6.5 million).

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.

In the fourth quarter of 2019, the Credit Facility was amended to, among other things, provide additional short-term liquidity and waive certain covenants and milestones. Subsequent to this amendment, the Company and its principal lenders agreed on a proposed asset divestment plan. The plan provided additional credit support to fund operations while the Company implemented its plan. In December 2019, the Company entered into a securities purchase agreement for the sale of its US sawmill business for an aggregate purchase price of US$176 million, including working capital estimated as US$13 million (note 7). Subsequent to year end, the Credit Facility was repaid in full on closing of the sale transaction on February 1, 2020 (note 31).

The Company was in compliance with debt covenants under the Credit Facility for the year ended December 31, 2019.

16. SHARE CAPITAL

Authorized

Unlimited number of common voting shares without par value.

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	60,627.2
Issue of common shares on acquisition of Cross City and Glenwood Mills	9,273	54,156.0
Shares vested under share-based compensation plan (note 17)	93	606.9
Balance at December 31, 2018	46,610	289,672.1
Shares vested under share-based compensation plan (note 17)	**314**	**1,030.8**
Balance at December 31, 2019	**46,924**	**290,702.9**

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

17. SHARE-BASED COMPENSATION

17.1 Stock option plan

The Company has a stock option plan primarily applicable to directors and officers. The total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, each option granted shall be for a term not exceeding 10 years from the grant date and the vesting period is determined based on the discretion of the Board of Directors. The option exercise price is set at the date of the grant and cannot be less than the closing trading price of the Company's common shares on the day immediately preceding the day of the grant of the option.

There are 100,000 options outstanding at December 31, 2019 (2018 – 100,000 options) with an exercise price of $8.25 per share. The options were granted on August 20, 2010 with an expiry date of August 20, 2020 and have fully vested. The options are exercisable only to the extent that they have vested.

The fair value of the options granted was estimated at the time of the grant using the Black-Scholes option pricing model. Based on a share price of $6.50 on the day of the grant, expected life of 10 years, risk-free interest rate of 3.05% and annualized volatility of 33%, the fair value of the options granted on August 20, 2010 was estimated at $265,000 or $2.65 per option. No expense related to the stock option plan was recognized in the years ended December 31, 2019 and 2018.

17.2 Long-term performance incentive plan

The Company operates a long-term performance incentive plan which provides for long-term incentive plan units, restricted share units, performance share units and deferred share units to be awarded to directors, executives and salaried employees. The Company measures the fair value of the services received as consideration for equity instruments indirectly by reference to the fair value of the equity instruments granted. The fair value is measured on the basis of an observable market price.

(a) Long-term incentive plan units and restricted share units

The following table illustrates the number and weighted average fair value ("WAFV") of, and movements in, long-term incentive plan awards and restricted share units granted during the year:

	2019 Number	**2019 WAFV**	2018 Number	2018 WAFV
		$		$
Outstanding at January 1	**1,139,558**	**3.74**	942,257	3.60
Granted during the year	**775,000**	**0.81**	290,000	5.10
Forfeited during the year	**(248,500)**	**3.82**	-	-
Vested during the year	**(305,000)**	**3.38**	(92,699)	6.56
Outstanding at December 31	**1,361,058**	**2.14**	1,139,558	3.74

The awards typically vest in three years. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period.

Expense related to the grant of long-term incentive plan awards and restricted share units of $0.9 million was recognized in the year ended December 31, 2019 (2018 – $1.0 million). The compensation expense is allocated between cost of goods sold and selling, general and administrative expense.

(b) Performance share units

Performance share units ("PSUs") generally vest on the third anniversary of the issuance date with the number of vesting shares determined by the 10-day volume-weighted average share price at vesting relative to the share price at issuance. Payments for vested units can be made in cash at the discretion of the Company's Board of Directors. The Company records an expense based on the 10-day volume-weighted average share price at each balance sheet date. No expense was recognized and no cash payments were made in regards to vested PSUs in the years ended December 31, 2019 and 2018.

(c) Deferred share units

Deferred share units ("DSUs") are awarded to directors who elect to have all or a portion of their directors' fees compensated by DSU awards rather than cash. The election can be made annually. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. The number of DSUs awarded is determined by the 10-day volume-weighted average share price at the time of the award. The Company records an expense based on the 10-day volume-weighted average share price at each balance sheet date. There was no expense recognized for the grant of DSUs in the years ended December 31, 2019 and 2018.

18. WARRANTS

	Number of warrants (in thousands)	Amount
		$
Balance at December 31, 2017	-	-
Warrants issued on acquisition of Cross City and Glenwood Mills	**3,500**	**4,969.3**
Balance at December 31, 2018 and 2019	**3,500**	**4,969.3**

In connection with the acquisition of the Cross City and Glenwood Mills in July 2018, the Company issued share purchase warrants to purchase up to an aggregate of 3,500,000 common shares of the unissued capital stock of the Company at a price of $8.78 per share until July 9, 2023. The fair market value of the warrants was recorded to contributed surplus.

19. REVENUE

	2019	2018
	$	$
Lumber	**121,795.3**	322,169.2
Lumber by-products	**9,842.5**	30,133.1
Bioenergy	**25,766.1**	26,770.3
	157,403.9	379,072.6

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

20. SELLING, GENERAL AND ADMINISTRATIVE

	2019	2018
	$	$
Salaries and benefits	**5,460.8**	5,417.4
Legal, professional and organizational	**2,806.2**	2,529.5
Selling and marketing expenses	**2,392.7**	4,334.5
Depreciation and amortization	**706.0**	234.2
Other administrative expenses	**624.8**	2,812.7
	11,990.5	15,328.3

21. FINANCE COSTS AND ACCRETION

	2019	2018
	$	$
Interest expense	**23,568.0**	14,254.2
Financing expense	**18,527.0**	2,389.7
	42,095.0	16,643.9

22. OTHER INCOME (EXPENSE)

	2019	2018
	$	$
Sale of right to recover softwood lumber duties, net of costs (note 30)	**15,212.1**	-
Insurance claim settlement	**1,082.2**	-
Other expense	**(1.3)**	(191.3)
	16,293.0	(191.3)

23. INCOME TAX

23.1 Current income taxes

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

	2019	2018
	$	$
Current	**592.3**	-
Deferred	**(11,399.6)**	(1,284.5)
	(10,807.3)	(1,284.5)

(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:

	2019	2018
	$	$
Loss before taxes	**(41,248.1)**	(8,595.7)
Income tax recovery at corporation rate of 27.6% (2018 - 27.3%)	**(11,369.2)**	(2,346.6)
Non-deductible (non-taxable) items for tax purposes	**985.6**	412.7
Rate differentials between jurisdictions	**(219.1)**	1.4
Change in deferred tax assets not recognized	**(353.1)**	(54.3)
Other	**148.5**	702.3
Total income tax recovery	**(10,807.3)**	(1,284.5)

23.2 Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet and the amounts used for income tax purposes. The Company has not recognized any tax assets related to its discontinued operations due to the uncertainty of future realization.

The source of deferred income taxes is as follows:

	2019	2018
	$	$
Property, plant, equipment and intangibles	**(9,597.1)**	(13,038.8)
Loss carryforwards	**11,778.7**	8,566.2
Reforestation and environmental obligations	**2,957.9**	3,771.8
Other	**4,368.4**	2,371.1
Goodwill	**-**	214.1
	9,507.9	1,884.4
Represented by:		
Deferred income tax assets	**9,507.9**	3,763.7
Deferred income tax liabilities	**-**	(1,879.3)
	9,507.9	1,884.4

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

23.3 Non-capital loss carryforwards

As at December 31, 2019, the Company has non-capital losses from the following years:

Year of loss	Non-capital loss amount
	$
2011	**541.4**
2012	**-**
2013	**267.5**
2014	**272.0**
2015	**1,493.6**
2016	**1,270.1**
2017	**8,068.1**
2018	**23,815.8**
2019	**86,103.3**
	121,831.8

The non-capital losses can be carried forward for 20 years from the year the loss was incurred.

24. NET INCOME (LOSS) PER SHARE

	Year ended December 31, 2019			Year ended December 31, 2018		
	Net loss	**Weighted average number of shares**	**Per share**	Net income (loss)	Weighted average number of shares	Per share
	$		**$**	$		$
Basic and diluted						
Continuing operations	**(30,440.7)**		**(0.65)**	(7,311.2)		(0.20)
Discontinued operations	**(169,788.6)**		**(3.63)**	257.0		0.01
Total per share	**(200,229.3)**	**46,769**	**(4.28)**	(7,054.2)	36,284	(0.19)

25. RELATED PARTY TRANSACTIONS

Key management personnel

Compensation of key management (directors and officers) consists of amounts paid and accrued as at the year end.

	2019	2018
	$	$
Short-term benefits	**3,072.0**	2,610.3
Share-based payments	**746.5**	876.4
	3,818.5	3,486.7

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

26. 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 subsidiary, Conifex Fibre Marketing Inc. ("CFMI"). CFMI generates 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.

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	$	$	$	$
Year ended December 31, 2019				
Sales to external customers	131,637.8	25,766.1	-	157,403.9
Operating income (loss)	(41,370.8)	8,612.8	(7,479.7)	(40,237.7)
Gain on disposal of assets	15,556.5	-	-	15,556.5
Finance costs and accretion	(147.6)	(4,677.9)	(37,269.5)	(42,095.0)
Loss on derivative financial instruments	(56.5)	-	-	(56.5)
Other income (expense)	16,300.8	-	(7.8)	16,293.0
Foreign exchange gain on long-term debt	-	-	8,883.1	8,883.1
Foreign exchange gain (loss)	-	(4.1)	412.7	408.6
Income tax recovery	-	-	10,807.3	10,807.3
Net income (loss)	(9,717.6)	3,930.8	(24,653.9)	(30,440.7)
Depreciation and amortization	7,520.5	5,315.4	393.8	13,229.7
Capital expenditures	1,446.3	765.0	54.4	2,265.7
Identifiable assets	317,367.9	121,122.2	22,995.3	461,485.4

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

	Lumber	Bioenergy	Corporate & other	Consolidated
	$	$	$	$
Year ended December 31, 2018				
Sales to external customers	352,302.3	26,770.3	-	379,072.6
Operating income (loss)	19,126.3	9,155.8	(8,486.5)	19,795.6
Gain on disposal of assets	20.5	-	-	20.5
Finance costs and accretion	-	(5,884.8)	(10,759.1)	(16,643.9)
Loss on derivative financial instruments	(484.0)	-	-	(484.0)
Other expense	(191.3)	-	-	(191.3)
Foreign exchange loss on long-term debt	-	-	(8,793.5)	(8,793.5)
Foreign exchange loss	-	(8.4)	(101.3)	(109.7)
Acquisition costs	-	-	(2,189.4)	(2,189.4)
Income tax recovery	-	-	1,284.5	1,284.5
Net income (loss)	18,471.5	3,262.6	(29,045.3)	(7,311.2)
Depreciation and amortization	10,470.3	4,990.1	148.8	15,609.2
Capital expenditures	10,467.3	2,423.8	167.1	13,058.2
Identifiable assets	149,883.5	128,557.6	7,043.9	285,485.0

Revenues by geographic area were as follows:

	2019	2018
	$	$
United States	**70,565.4**	182,009.1
Canada	**49,862.2**	89,836.4
Japan	**21,039.1**	53,022.4
China	**14,878.3**	40,600.1
Other	**1,058.9**	13,604.6
	157,403.9	379,072.6

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

27. COMMITMENTS

The Company has committed to leases of office spaces, mobile and other equipment as outlined in note 15(a). In the ordinary course of business activities, the Company may be subject to, or enter into, commitments that are for terms of less than one year or are low dollar value leases. These amounts are included in the statement of net income and comprehensive income as charges are incurred.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial risk management

The Company's activities expose it to a variety of financial risks: liquidity risk (note 2), market risk (including foreign exchange risk, commodity price risk and interest rate risk), and credit risk. The Company's overall financial risk management activities focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to reduce certain risk exposures.

The Company's financial risk management activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement, hedging limits, hedging products, and authorization levels.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to currency risk, primarily with respect to the US dollar, as its products are sold principally in US dollars and its costs of production at its BC mills are incurred principally in Canadian dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company does not currently use financial derivative instruments for its foreign exchange risk management program.

As at December 31, 2019, the Company's operations in Canada has US dollar denominated accounts receivable totaling US$2.2 million (2018 – US$8.6 million) and accounts payable totaling US$10.9 million (2018 – US$5.1 million). The US dollar denominated amount drawn on the revolving credit facilities is US$0.1 million (2018 – US$24.7 million).

(ii) Commodity price risk

The Company is exposed to commodity price risk related to the sale of lumber and residual products and purchase of certain manufacturing inputs which are purchased primarily on the open market. From time to time, the Company enters into futures contracts on the Chicago Mercantile Exchange to reduce its exposure to risks associated with fluctuations in lumber prices. At December 31, 2019, the fair value of non-covered outstanding commodity financial instruments was $0.1 million (2018 – $1.2 million). The fair value of these instruments was determined based on market rates for instruments with similar characteristics. The Company did not hold any lumber futures as at December 31, 2019 (2018 – 114 open positions).

(iii) Interest rate risk

Exposure to interest risk arises primarily when financial assets and financial obligations bear variable interest rates.

The Company may utilize interest rate swaps to reduce its interest rate risk associated with its financial obligations that bear variable interest rates. The Company had no fixed interest rate swaps outstanding at December 31, 2019 and 2018.

(b) Credit risk

Credit risk is the risk of financial loss to the Company in the event a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily related to its trade receivable balances. The Company's credit department is responsible for managing and analyzing the credit risk for each new client before standard payment and delivery terms and conditions are offered. The Company utilizes a combination of credit insurance, letters of credit and self-insurance to manage risks associated with its trade receivables. Management regularly reviews the collectability of trade receivables and makes provisions where the collectability is uncertain. The Company does not have significant credit risk related to its cash and cash equivalent balances as deposits are held with major Canadian and US banks.

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

Capital management

The Company's objective when managing capital is to maintain a strong balance sheet that ensures adequate capital resources to support operations and to sustain future business development.

The Company monitors capital on the basis of the net debt to total capitalization ratio. Net debt is calculated as current and non-current borrowings (note 15) less cash and cash equivalents. Total capital is calculated as the sum of net debt and equity.

The Company's capital structure at year end consisted of the following:

	2019	2018
	$	$
Borrowings, current	**193,957.3**	46,388.7
Borrowings, non-current	**63,251.8**	285,610.9
Less: cash	**(7,645.3)**	(24,952.4)
Net debt	**249,563.8**	307,047.2
Shareholders' equity	**124,613.1**	340,101.9
Total capitalization	**374,176.9**	647,149.1
Net debt to capitalization	**67%**	47%

The Company's capital structure, excluding borrowings by CP Partnership as described in note 15, at year end consisted of the following:

	2019	2018
	$	$
Borrowings, current (excluding non-recourse borrowings)	**190,715.7**	43,330.2
Borrowings, non-current (excluding non-recourse borrowings)	**2,692.0**	221,749.8
Less: cash	**(560.9)**	(14,597.8)
Net debt	**192,846.8**	250,482.2
Shareholders' equity	**124,613.1**	340,101.9
Total capitalization	**317,459.9**	590,584.1
Net debt to capitalization	**61%**	42%

There were no changes in the Company's approach to capital management during the year.

29. 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 FVTPL.

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

Financial assets and liabilities that are measured subsequent to initial recognition at fair value are classified within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table summarizes the Company's financial instruments at December 31, 2019 and 2018, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

	Fair value hierarchy level	**2019**	2018
	$	**$**	$
Financial assets			
Fair value through profit and loss			
Derivative financial instruments	Level 2	**27.2**	1,193.3
		27.2	1,193.3

30. 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.

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%.

On February 3, 2020, the USDOC issued its preliminary revised CV and AD duty rates based on completion of its first administrative review of shipments for the years ended December 31, 2017 and 2018. The following table summarizes the cash deposit rates currently in effect and the issued preliminary revised rates:

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

Year ended December 31	Cash deposit rates in effect	Preliminary revised rates
2017		
CV	14.19%	6.71%
AD	6.04%	1.66%
Total	20.23%	8.37%
2018		
CV	14.19%	6.55%
AD	6.04%	1.66%
Total	20.23%	8.21%

The USDOC may further amend these preliminary revised duty rates at any time, with final rate determinations expected to be published in August 2020. At such time, the final rates determined and published for 2018 will be applied to new lumber shipments.

The second administrative review covering the 2019 fiscal period will commence in 2020 and results are not expected to be finalized until 2021.

The Company expensed CV and AD duty deposits totaling $8.9 million in the year ended December 31, 2019 (2018 – $24.4 million), based on the final "all others" CV duty rate of 14.19% and AD duty rate of 6.04%. No adjustments have been recorded in the consolidated financial statements as of December 31, 2019 to reflect the preliminary revised duty rates.

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$35.0 million paid by the Company since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews 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$32.7 million during the period from April 28, 2017 to June 30, 2019. The net proceeds of the sale totaled $17.5 million, of which $2.3 million was credited to accounts receivable to clear a previous overpayment of duty deposits and $15.2 million was recorded as other income in the consolidated statement of net income and comprehensive 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.

31. COMPLETION OF SALE OF US SAWMILL BUSINESS

On February 1, 2020, the Company completed the sale of its US sawmill business. The proceeds were used to fully repay and extinguish the Credit Facility (note 15(c)). The balance of the proceeds from the sale are planned to be used for working capital and general corporate purposes.