

Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2020
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at March 31, 2020 (unaudited)

(thousands of Canadian dollars)	Notes	As at March 31, 2020	As at December 31, 2019
		\$	\$
Assets			
<i>Current assets</i>			
Cash		12,071.0	919.5
Cash - restricted		6,527.8	6,725.8
Trade and other receivables		16,021.1	13,822.6
Prepaid expenses and deposits		8,730.6	12,995.5
Inventories	7	13,721.3	15,288.5
Assets held for sale		-	236,510.2
Current assets		57,071.8	286,262.1
Property, plant and equipment	8	134,557.5	137,265.6
Intangible assets		3,724.6	3,837.1
Goodwill	9	1,875.0	1,875.0
Long-term investments and other		22,725.7	22,737.7
Deferred income tax assets	12	11,199.8	9,507.9
Total assets		231,154.4	461,485.4
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		25,928.6	35,781.2
Current portion of reforestation obligations		3,124.3	3,124.3
Employee liabilities		607.3	409.9
Current portion of revolving credit facility	10	-	11,398.7
Current portion of long-term debt	10	4,525.1	182,558.6
Liabilities held for sale		-	21,525.2
Current liabilities		34,185.3	254,797.9
Reforestation obligations		7,527.7	7,857.3
Environmental liabilities		1,153.7	1,153.7
Other long-term liabilities		10,201.5	9,811.6
Long-term debt	10	61,823.0	63,251.8
Non-current liabilities		80,705.9	82,074.4
Total liabilities		114,891.2	336,872.3
Equity			
Share capital	11	291,024.0	290,702.9
Contributed surplus		15,945.9	16,722.6
Deficit		(191,116.1)	(183,366.5)
Accumulated other comprehensive income		409.4	554.1
Total equity		116,263.2	124,613.1
Total liabilities and equity		231,154.4	461,485.4

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

Conifex Timber Inc.

Condensed consolidated statements of net income (loss) and comprehensive income (loss)
period ended March 31, 2020 (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended March 31,	
		2020	2019
		\$	\$
Revenue	13	30,566.2	66,759.1
Costs and expenses			
Cost of goods sold		27,578.3	58,094.3
Freight and distribution costs		4,179.3	9,864.1
Softwood lumber duties	15	1,974.1	3,762.5
Selling, general and administrative		1,740.1	3,550.7
Restructuring charges		1,886.7	-
		37,358.5	75,271.6
Operating loss		(6,792.3)	(8,512.5)
Gain (loss) on disposal of assets		(5.0)	75.0
Finance costs and accretion		(3,480.8)	(6,010.9)
Loss on derivative financial instruments		-	(103.9)
Foreign exchange gain (loss) on long-term debt		(2,109.2)	4,500.8
Foreign exchange gain		2,497.9	499.1
		(3,097.1)	(1,039.9)
Loss before taxes		(9,889.4)	(9,552.4)
Income tax expense (recovery):	12		
Deferred		(1,670.6)	(2,118.4)
Loss from continuing operations		(8,218.8)	(7,434.0)
Income (loss) from discontinued operations	6	469.2	(4,447.3)
Net income (loss)		(7,749.6)	(11,881.3)
Other comprehensive loss			
Foreign exchange translation of foreign operations, net of tax		(144.7)	(8,349.8)
Other comprehensive loss, net of tax		(144.7)	(8,349.8)
Total comprehensive income (loss) for the period		(7,894.3)	(20,231.1)
Net loss from continuing operations per share, basic and diluted: (in dollars)			
Net loss per share from continuing operations		(0.18)	(0.16)
Net income (loss) per share from discontinued operations		0.01	(0.09)
		(0.17)	(0.25)

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Conifex Timber Inc.

Condensed consolidated statements of changes in equity
period ended March 31, 2020 (unaudited)

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2018	289,672.1	16,854.8	16,862.8	16,712.2	340,101.9
Net loss for the three months ended					
March 31, 2019	-	-	(11,881.3)	-	(11,881.3)
Recognition of share-based payments	-	300.1	-	-	300.1
Foreign exchange translation of foreign operations, net of tax	-	-	-	(8,349.8)	(8,349.8)
Balance at March 31, 2019	289,672.1	17,154.9	4,981.5	8,362.4	320,170.9
Net loss for the period from April 1, 2019 to December 31, 2019	-	-	(188,348.0)	-	(188,348.0)
Issue of common shares upon vesting of share-based payment	1,030.8	(1,030.8)	-	-	-
Recognition of share-based payments	-	598.5	-	-	598.5
Foreign exchange translation of foreign operations, net of tax	-	-	-	(7,808.3)	(7,808.3)
Balance at December 31, 2019	290,702.9	16,722.6	(183,366.5)	554.1	124,613.1
Net loss for the three months ended					
March 31, 2020	-	-	(7,749.6)	-	(7,749.6)
Issue of common shares upon vesting of share-based payment	321.1	(321.1)	-	-	-
Recognition of share-based payments	-	(455.6)	-	-	(455.6)
Foreign exchange translation of foreign operations, net of tax	-	-	-	(144.7)	(144.7)
Balance at March 31, 2020	291,024.0	15,945.9	(191,116.1)	409.4	116,263.2

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Conifex Timber Inc.

Condensed consolidated statements of cash flows
period ended March 31, 2020 (unaudited)

(thousands of Canadian dollars)	Three months ended March 31,	
	2020	2019
	\$	\$
Cash flows from operating activities		
Loss from continuing operations	(8,218.8)	(7,434.0)
Items not affecting cash:		
Amortization and depreciation	2,890.8	4,145.4
Change in mark-to-market value of lumber price derivatives	-	(12.9)
Change in reforestation obligations	(329.6)	1,485.1
Finance costs and accretion	3,480.8	6,010.9
Income tax recovery	(1,670.6)	(2,118.4)
Share-based compensation	(455.6)	300.1
Load Displacement Agreement accretion	(156.9)	(156.9)
Loss (gain) on disposal of assets	5.0	(75.0)
Foreign exchange loss (gain) on long-term debt	2,109.2	(4,500.8)
	(2,345.7)	(2,356.5)
Change in:		
Trade and other receivables	(2,118.5)	(3,123.6)
Prepaid expenses and deposits	(15.3)	312.0
Inventories	1,567.2	(162.9)
Trade payables, accrued liabilities and other payables	(8,766.0)	5,941.8
Environmental liabilities	-	(5.4)
Employee liabilities	197.4	590.0
Operating cash flows from discontinued operations	(1,486.6)	5,283.8
Net cash provided from (used in) operating activities	(12,967.5)	6,479.2
Cash flows from investing activities		
Additions to property, plant and equipment	(174.2)	(527.4)
Net proceeds from insurance claim settlement	-	500.1
Proceeds on disposal of assets, net	78.3	930.9
Investing cash flows from discontinued operations	224,252.7	(351.7)
Net cash provided from investing activities	224,156.8	551.9
Cash flows from financing activities		
Repayment of leases	(412.1)	(373.4)
Repayment of revolving credit facility	(11,729.9)	(3,119.7)
Repayment of term loans	(181,178.9)	(3,811.2)
Financing fees	(189.6)	(521.0)
Interest paid	(6,068.7)	(5,545.5)
Financing cash flows from discontinued operations	(29.3)	(897.9)
Net cash used in financing activities	(199,608.5)	(14,268.7)
Net increase (decrease) in cash	11,580.8	(7,237.6)
Foreign exchange effect on cash	(627.3)	(164.6)
Cash, beginning of period	7,645.3	24,952.4
Cash, end of period	18,598.8	17,550.2

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Notes to the condensed consolidated interim financial statements

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(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 includes timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing and 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’s lumber products are sold primarily in the United States, Canadian, Japanese and Chinese markets.

Conifex is a publicly traded company listed on the Toronto Stock Exchange under the symbol CFF. The Company is incorporated under the *Canada Business Corporations Act* and is headquartered in Vancouver, BC, Canada.

The address of its registered office is 1000 Cathedral Place, 925 West Georgia Street, Vancouver, BC V6C 3L2.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), and do not include all of the information required for full annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2019 annual consolidated financial statements.

4. IMPACT OF COVID-19 ON ESTIMATES AND LIQUIDITY

The preparation of the condensed consolidated interim 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. 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. 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 review affects both current and future periods.

The COVID-19 pandemic has had a significant impact on global demand for forest products. The magnitude of the pandemic’s effects on the economy and the Company’s financial and operational performance is uncertain at this time. The Company will continue to closely monitor the COVID-19 situation and its effects. Should the duration, spread or intensity of the pandemic develop further in 2020, the Company’s supply chain, market pricing and customer demand could be affected. The uncertainty may also materially affect the Company’s operations, its liquidity and cash flows, and the valuation of its inventories and long-lived assets.

The Company monitors expected liquidity levels to help ensure sufficient resources are available to meet operational requirements and to sustain future business development. The Company believes that cash flow

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from operations and flexibility in levels of investment in operating working capital will be adequate to meet our obligations over the next twelve months. However, given the uncertainty regarding the impact of the COVID-19 pandemic on the overall economy and the Company's operations, further actions may be necessary.

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 bioenergy operations 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. SALE OF US SAWMILLS AND DISCONTINUED OPERATIONS

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 (collectively, the "US Sawmills") for an aggregate purchase price of US\$173.3 million, including net working capital of US\$10.3 million. The sale of the US Sawmills was completed on February 1, 2020.

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 US Sawmills is \$1.1 million as summarized in the table below. The net working capital adjustments are being finalized and could result in changes to the gain on disposition.

	February 1, 2020
	\$
Proceeds on disposition, net of transaction costs	219,476.9
Book value of net assets disposed:	
Cash	1,259.9
Trade and other receivables	3,779.9
Prepaid expenses and deposits	4,765.6
Inventories	12,659.5
Property, plant and equipment	201,684.9
Intangible assets	293.6
Goodwill	11,123.9
Trade payables, accrued liabilities and other payables	(8,874.2)
Employee liabilities	(8.6)
Current portion of long-term debt	(2,502.2)
Long-term debt	(4,770.4)
Net assets disposed	219,411.9
Effect of foreign exchange revaluation	1,038.6
Gain on disposal of US Sawmills	1,103.6

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A discontinued operation is a component of the Company's business, the operations and cash flows 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 2019 and 2020.

The results of the discontinued operations are as follows:

	Lumber Wholesale	Transportation Services	US Sawmills	Total
	\$	\$	\$	\$
Three months ended March 31, 2020				
Revenue	-	72.5	13,209.8	13,282.3
Costs and expenses	-	(141.7)	(13,613.4)	(13,755.1)
Operating income (loss)	-	(69.2)	(403.6)	(472.8)
Other expenditures	-	(44.3)	(138.6)	(182.9)
Gain on disposal of business	-	-	1,103.6	1,103.6
Income (loss) before taxes	-	(113.5)	561.4	447.9
Income tax expense (recovery)	-	(21.3)	-	(21.3)
Net income (loss) from discontinued operations	-	(92.2)	561.4	469.2
Cash flows from:				
Operating activities	-	(1,187.3)	(299.3)	(1,486.6)
Investing activities	-	-	224,252.7	224,252.7
Financing activities	-	(9.1)	(20.2)	(29.3)
Net increase (decrease) in cash	-	(1,196.4)	223,933.2	222,736.8

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

	Lumber Wholesale	Transportation Services	US Sawmills	Total
	\$	\$	\$	\$
Three months ended March 31, 2019				
Revenue	27,149.7	3,184.7	63,801.4	94,135.8
Costs and expenses	(26,385.1)	(2,998.5)	(67,853.3)	(97,236.9)
Operating income (loss)	764.6	186.2	(4,051.9)	(3,101.1)
Other expenditures	(604.5)	(8.8)	(83.3)	(696.6)
Income (loss) before taxes	160.1	177.4	(4,135.2)	(3,797.7)
Income tax expense (recovery)	-	6.7	642.9	649.6
Net income (loss) from discontinued operations	160.1	170.7	(4,778.1)	(4,447.3)
Cash flows from:				
Operating activities	2,656.5	225.4	2,401.8	5,283.7
Investing activities	(2.2)	-	(349.5)	(351.7)
Financing activities	(4,931.8)	(1,671.6)	(6,081.8)	(12,685.2)
Net increase (decrease) in cash	(2,277.5)	(1,446.2)	(4,029.5)	(7,753.2)

7. INVENTORIES

	March 31, 2020	December 31, 2019
	\$	\$
Logs	4,924.9	6,033.4
Lumber	4,207.5	4,699.2
Supplies	4,272.5	4,081.8
By-products	316.4	474.1
	13,721.3	15,288.5

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has been written down at March 31, 2020 by \$2.0 million (December 31, 2019 – \$1.3 million). Write-downs are included in cost of goods sold when incurred.

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8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Right of use assets	Capital work in progress	Total
	\$	\$		\$	\$
<i>Cost</i>					
At December 31, 2018	7,467.4	484,726.6	-	2,766.2	494,960.2
Net additions *	-	9,364.7	9,032.7	(960.2)	17,437.2
Disposals	(113.7)	(72,239.4)	(783.4)	-	(73,136.5)
Reclassified to discontinued operations	(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	2,912.8	195,369.6	3,507.5	443.7	202,233.6
Net additions *	-	162.9	-	11.4	174.3
Disposals	-	(123.2)	(130.4)	-	(253.6)
At March 31, 2020	2,912.8	195,409.3	3,377.1	455.1	202,154.3
<i>Accumulated depreciation</i>					
At December 31, 2018	-	(112,864.4)	-	-	(112,864.4)
Depreciation charge for the year	-	(28,270.7)	(2,168.8)	-	(30,439.5)
Disposals	-	49,334.4	130.2	-	49,464.6
Reclassified to discontinued operations	-	26,897.8	1,251.5	-	28,149.3
Effect of foreign exchange revaluation	-	702.3	19.7	-	722.0
At December 31, 2019	-	(64,200.6)	(767.4)	-	(64,968.0)
Depreciation charge for the year	-	(2,575.9)	(202.9)	-	(2,778.8)
Disposals	-	90.2	59.8	-	150.0
At March 31, 2020	-	(66,686.3)	(910.5)	-	(67,596.8)
<i>Carrying amount</i>					
At December 31, 2019	2,912.8	131,169.0	2,740.1	443.7	137,265.6
At March 31, 2020	2,912.8	128,723.0	2,466.6	455.1	134,557.5

* Insurance proceeds received in the three months ended March 31, 2020 of nil (year ended December 31, 2019 – \$0.9 million) have been netted against the capital work in progress additions.

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

9. GOODWILL

	March 31, 2020	December 31, 2019
	\$	\$
Cost and carrying amount at beginning of year	1,875.0	163,811.9
Disposal of business	-	(1,244.1)
Reclassification to assets held for sale	-	(154,102.4)
Effect of foreign exchange revaluation	-	(6,590.4)
	1,875.0	1,875.0

10. BORROWINGS

	March 31, 2020	December 31, 2019
	\$	\$
Non-current		
Leases (a)	2,741.6	3,045.2
CP Partnership term loan (b)	59,081.4	60,206.6
Total non-current borrowings	61,823.0	63,251.8
Current		
Current portion of leases (a)	1,385.4	1,514.3
Current portion of CP Partnership term loan (b)	3,139.7	3,085.0
Current portion of senior secured term loan (c)	-	177,959.3
	4,525.1	182,558.6
Current portion of revolving credit facility (c)	-	11,398.7
Total current borrowings	4,525.1	193,957.3
Total borrowings	66,348.1	257,209.1

(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 is 5.7% per annum. The principal balance outstanding at March 31, 2020 was \$4.1 million (December 31, 2019 – \$4.6 million).

Interest expense on lease obligations for the three months ended March 31, 2020 was \$0.1 million (year ended December 31, 2019 – \$0.2 million). Total payments for leases, including interest, in the period was \$0.5 million (year ended December 31, 2019 – \$1.6 million).

(b) CP Partnership term loan

Conifex Power Limited Partnership (“CP Partnership”), a wholly-owned subsidiary of the Company, completed a \$70.0 million secured term loan (the “CP Partnership Term Loan”) with a syndicate of private lenders in October 2018. The CP Partnership Term Loan is for a term of 15 years, repayable quarterly commencing December 2018 and bears interest at a fixed rate of 6.1% per annum. On December 4, 2019, an amendment to the CP Partnership Term Loan resulted in a temporary increase in the fixed rate of 0.5% application 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 10 (c)), or January 31, 2021.

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

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

As at March 31, 2020, CP Partnership held \$6.5 million of cash in restricted accounts (December 31, 2019 – \$6.7 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 March 31, 2020 (December 31, 2019 – \$2.2 million).

(c) Senior secured credit facility

The Company entered into a syndicated five-year US\$225.0 million senior secured credit facility (the "Credit Facility") in July 2018. The Credit Facility consisted of a US\$165.0 million term loan facility and a US\$60.0 million revolving credit facility. The Credit Facility was secured by substantially all of the Company's lumber operating assets.

In December 2019, the Company entered into a securities purchase agreement for the sale of its US sawmill business. The Credit Facility was repaid in full on closing of the sale transaction on February 1, 2020 (note 6).

11. SHARE CAPITAL

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount \$
Balance at December 31, 2018 and March 31, 2019	46,610	289,672.1
Shares vested under share-based compensation plan during the period from April 1, 2019 to December 31 2019	314	1,030.8
Balance at December 31, 2019	46,924	290,702.9
Shares vested under share-based compensation plan during the three months ended March 31, 2020	104	321.1
Balance at March 31, 2020	47,028	291,024.0

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12. INCOME TAX

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

	Three months ended March 31,	
	2020	2019
	\$	\$
Deferred	(1,670.6)	(2,118.4)
	(1,670.6)	(2,118.4)

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

	Three months ended March 31,	
	2020	2019
	\$	\$
Loss before taxes	(9,889.4)	(9,552.4)
Income tax recovery at corporation rate of 27.4% (2019 – 27.2%)	(2,714.4)	(2,567.4)
Non-deductible (non-taxable) items for tax purposes	1,072.1	163.3
Rate differentials between jurisdictions	42.3	55.4
Change in deferred tax assets not recognized	(29.8)	110.2
Other	(40.8)	120.1
Total income tax recovery	(1,670.6)	(2,118.4)

13. REVENUE

The Company has one reportable segment comprising of activities that include timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing, and generation of electrical power that is complementary to the Company's harvesting and manufacturing operations.

	Three months ended March 31,	
	2020	2019
	\$	\$
Lumber	20,941.3	54,352.8
Lumber by-products	1,641.1	4,196.3
Bioenergy	7,983.8	8,210.0
	30,566.2	66,759.1

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

Revenues by geographic area were as follows:

	Three months ended March 31,	
	2020	2019
	\$	\$
United States	14,888.6	29,880.5
Canada	12,728.1	19,079.6
Japan	2,827.9	10,229.1
China	29.1	6,987.7
Other	92.5	582.2
	30,566.2	66,759.1

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

14. FINANCIAL INSTRUMENTS

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

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

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

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

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

The following table summarizes the Company's financial instruments measured at fair value at March 31, 2020 and December 31, 2019, and shows the level within the fair value hierarchy in which they have been classified:

	Fair value hierarchy level	March 31,	December 31,
		2020	2019
		\$	\$
Financial assets			
Fair value through profit and loss			
Derivative financial instruments	Level 2	15.4	27.2
		15.4	27.2

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

March 31, 2020 (unaudited)

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

15. COUNTERVAILING AND ANTI-DUMPING DUTIES

On November 25, 2016, a coalition of US lumber producers petitioned the US Department of Commerce (“USDOC”) and the US International Trade Commission (“USITC”) to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy 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:

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 \$2.0 million in the three months ended March 31, 2020 (year ended December 31, 2019 – \$8.9 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 condensed consolidated interim financial statements as of March 31, 2020 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\$3.8 million paid by the Company, net of sales of the right to refunds, 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.

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.