

Condensed consolidated interim financial statements of

Conifex Timber Inc.

September 30, 2017
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at September 30, 2017 (unaudited)

(thousands of Canadian dollars)	Notes	As at September 30, 2017	As at December 31, 2016
		\$	\$
Assets			
<i>Current assets</i>			
Cash		18,272.2	12,650.3
Cash - restricted	7	8,760.3	10,309.3
Trade and other receivables		37,473.1	28,581.8
Prepaid expenses and deposits		13,148.0	13,906.9
Inventories	5	57,190.8	56,337.9
Current assets		134,844.4	121,786.2
Goodwill		3,310.5	3,310.5
Intangible assets		5,207.3	5,119.8
Property, plant and equipment		262,734.3	213,339.0
Long-term investments and other		23,041.4	21,729.8
Total assets		429,137.9	365,285.3
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		35,499.9	28,769.8
Current portion of reforestation obligations		5,529.1	5,366.3
Employee liabilities		3,106.0	1,882.1
Operating loans	6	1,600.0	28,198.7
Current portion of mortgage	7	-	10,440.8
Current portion of long-term debt	7	5,603.6	4,438.2
Current liabilities		51,338.6	79,095.9
Reforestation obligations		7,037.0	6,744.2
Environmental liabilities		1,395.3	1,474.0
Other long-term liabilities		11,302.1	11,798.7
Revolving credit facility	8	87,108.4	-
Long-term debt	7	69,590.1	88,664.0
Non-current liabilities		176,432.9	108,680.9
Total liabilities		227,771.5	187,776.8
Equity			
Share capital	9	174,259.5	158,601.8
Conversion option on convertible notes		-	326.4
Contributed surplus		11,177.2	11,634.7
Retained earnings		15,929.7	6,945.6
Total equity		201,366.4	177,508.5
Total liabilities and equity		429,137.9	365,285.3

Subsequent Event (note 13)

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

Conifex Timber Inc.

Condensed consolidated statements of net income and comprehensive income
period ended September 30, 2017 (unaudited)

(thousands of Canadian dollars)	3 months ended September 30,		9 months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue	120,335.2	104,129.2	337,097.6	307,312.3
Costs and expenses				
Cost of goods sold	87,762.5	81,209.6	254,583.6	237,905.2
Freight and distribution costs	14,894.8	14,981.9	42,936.1	44,567.8
Export duties	3,442.0	-	8,015.4	-
Selling, general and administrative	5,428.1	4,591.8	14,867.2	13,343.8
	111,527.4	100,783.3	320,402.3	295,816.8
Operating income	8,807.8	3,345.9	16,695.3	11,495.5
Gain (loss) on disposal of assets	-	1.5	(14.0)	47,986.3
Interest expense and accretion	(1,645.9)	(2,248.7)	(6,014.6)	(7,064.0)
Other income (expense)	(34.7)	218.2	312.6	609.3
Foreign exchange gain (loss)	(969.5)	94.6	(1,995.2)	(1,233.9)
Gain on revaluation	-	-	-	13,329.1
	(2,650.1)	(1,934.4)	(7,711.2)	53,626.8
Net income and comprehensive income for the period	6,157.7	1,411.5	8,984.1	65,122.3
Net income per common share: (in dollars)				
Basic	0.23	0.07	0.36	3.08
Diluted	0.23	0.07	0.36	2.85

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

Conifex Timber Inc.

Condensed consolidated statements of changes in equity
period ended September 30, 2017 (unaudited)

(thousands of Canadian dollars)	Share capital	Conversion option on convertible notes	Contributed surplus	Retained earnings (deficit)	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2015	157,835.6	326.4	11,484.6	(63,287.9)	106,358.7
Net income for the nine months ended September 30, 2016	-	-	-	65,122.3	65,122.3
Issue of common shares upon vesting of share-based payment	629.4	-	(632.7)	-	(3.3)
Recognition of share-based payments	-	-	727.9	-	727.9
Balance at September 30, 2016	158,465.0	326.4	11,579.8	1,834.4	172,205.6
Net income for the period October 1, 2016 to December 31, 2016	-	-	-	5,111.2	5,111.2
Issue of common shares upon vesting of share-based payment	136.8	-	(107.9)	-	28.9
Recognition of share-based payments	-	-	162.8	-	162.8
Balance at December 31, 2016	158,601.8	326.4	11,634.7	6,945.6	177,508.5
Net income for the nine months ended September 30, 2017	-	-	-	8,984.1	8,984.1
Cash settlement of subordinated convertible notes	-	(326.4)	326.4	-	-
Public offering and private placement of common shares, net of issue costs	14,201.4	-	-	-	14,201.4
Issue of common shares upon vesting of share-based payment	1,456.3	-	(1,415.4)	-	40.9
Recognition of share-based payments	-	-	631.5	-	631.5
Balance at September 30, 2017	174,259.5	-	11,177.2	15,929.7	201,366.4

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

Conifex Timber Inc.

Condensed consolidated statements of cash flows
as at September 30, 2017 (unaudited)

(thousands of Canadian dollars)	3 months ended September 30,		9 months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cash flows from operating activities				
Net income	6,157.7	1,411.5	8,984.1	65,122.3
Items not affecting cash:				
Amortization and depreciation	4,279.5	4,819.1	13,482.1	13,472.2
Change in mark-to-market value of lumber price derivatives	166.9	(153.5)	191.0	(320.7)
Change in reforestation obligations	(359.4)	636.3	455.6	2,154.7
Interest expense and accretion	1,645.9	2,248.7	6,014.6	7,064.0
Share based compensation	241.6	221.2	672.4	724.6
LDA accretion	(156.9)	(157.1)	(470.3)	(470.1)
Loss (gain) on disposal of assets	-	(1.5)	14.0	(47,986.3)
Gain on revaluation	-	-	-	(13,329.1)
	11,975.3	9,024.7	29,343.5	26,431.6
Change in:				
Trade and other receivables	(9,871.0)	(3,844.3)	(9,082.3)	(5,627.0)
Prepaid expenses and deposits	2,576.3	2,969.8	729.1	160.2
Inventories	(5,977.5)	(12,960.2)	(852.9)	(10,478.0)
Accounts payable, accrued liabilities and other payables	7,814.7	1,930.4	7,536.5	4,294.7
Environmental liabilities	(49.8)	(42.8)	(78.7)	(55.6)
Employee liabilities	984.3	431.1	1,224.0	1,433.5
Net cash provided from (used in) operating activities	7,452.3	(2,491.3)	28,819.2	16,159.4
Cash flows from investing activities				
Additions to property, plant and equipment	(22,029.8)	(5,273.4)	(63,336.7)	(7,876.8)
Additions to long-term investments	-	-	-	(20.9)
Proceeds on disposal of assets, net	-	1.5	183.3	20,121.5
Net cash provided from (used in) investing activities	(22,029.8)	(5,271.9)	(63,153.4)	12,223.8
Financing activities				
Capital introduced - public offering and private placement	8.9	-	14,201.4	-
Proceeds of long-term debt	4,589.4	814.2	5,129.5	730.4
Proceeds of revolving credit facility	4,027.5	-	87,108.4	-
Repayment of term loan	(597.2)	(712.2)	(3,421.7)	(3,868.7)
Repayment of mortgage	-	-	(10,440.8)	-
Repayment of senior secured notes	-	-	(20,300.0)	(5,700.0)
Repayment (proceeds) of operating loans	-	1,178.8	(26,598.7)	(8,888.6)
Financing fees	17.2	(88.2)	(1,760.5)	(303.9)
Interest paid	(1,550.0)	(2,213.4)	(5,510.5)	(6,488.3)
Net cash provided from (used in) financing activities	6,495.8	(1,020.8)	38,407.1	(24,519.1)
Net increase (decrease) in cash	(8,081.7)	(8,784.0)	4,072.9	3,864.1
Cash, beginning of period	35,114.2	31,096.7	22,959.6	18,448.6
Cash, end of period	27,032.5	22,312.7	27,032.5	22,312.7

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

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2017 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

In these notes, "Conifex" or the "Company" means Conifex Timber Inc. and its subsidiaries, unless the context otherwise requires.

1. GENERAL INFORMATION

The primary business of Conifex in its lumber segment includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing. Conifex's lumber products are sold in the United States, Canadian, Chinese, and Japanese 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, BC.

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 PRESENTATION

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, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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, 2016 annual consolidated financial statements.

4. SEASONALITY OF OPERATIONS

The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories 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 experience variability as a result of the application of a "time of delivery factor" to electricity pricing which adds a seasonal effect to quarterly revenues. The lowest revenues are expected to be generated in the spring months and the highest in the fall and winter months of each year.

Conifex Timber Inc.

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(Tabular amounts expressed in thousands except per share amounts)

5. INVENTORIES

	September 30, 2017	December 31, 2016
	\$	\$
Lumber	30,026.0	24,835.5
Logs	19,367.4	25,712.3
Supplies and other	7,340.5	5,682.0
By-products	456.9	108.1
	57,190.8	56,337.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has not been written down at September 30, 2017 and December 31, 2016. Write-downs are included in cost of goods sold when incurred.

6. OPERATING LOANS

(a) \$35 Million senior secured revolving asset based credit facility

In January 2016, the Company entered into a three-year \$35 million senior secured revolving asset based credit facility (the "Facility") with a Canadian chartered bank. Under the terms of the Facility, amounts drawn and to be repaid were determined by a borrowing base calculation that fluctuated with eligible accounts receivable and inventory balances, net of specific reserves. Borrowings could be in Canadian or US dollars. Interest rates on Canadian dollar borrowings were based on either banker's acceptances or the Canadian chartered bank prime rate, at the Company's option, plus an applicable margin.

On January 9, 2017, the Company repaid in full and extinguished the Facility (balance at December 31, 2016 – \$19.75 million).

(b) Demand revolving loan and demand revolving line

Lignum Forest Products LLP ("Lignum"), a wholly-owned subsidiary of the Company, had a \$10 million demand revolving loan, a US\$1 million manufacturer's advance facility to fulfill confirmed sales contract for supply of lumber to foreign buyers, and access to a foreign exchange facility (collectively, the "Revolving Loan"). The Revolving Loan bore interest at Canadian prime rate or US base rate plus an applicable margin.

Lignum fully repaid and discharged the Revolving Loan in the first quarter of 2017 (balance at December 31, 2016 – \$6.8 million).

(c) \$1.75 Million revolving operating facility

Conifex Power Limited Partnership ("CP Partnership"), a wholly-owned subsidiary of the Company, has a \$1.75 million revolving operating facility in connection with its project financing secured in November 2013 (note 7(d)).

As of September 30, 2017, CP Partnership has drawn \$1.6 million of the revolving operating facility (December 31, 2016 – \$1.6 million).

Conifex Timber Inc.

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(Tabular amounts expressed in thousands except per share amounts)

7. BORROWINGS

	September 30, 2017	December 31, 2016
	\$	\$
Non-current		
Long term debt (a)	4,481.5	680.8
Senior secured notes (b)	-	19,606.1
Term loan (c)	65,108.6	68,377.1
	69,590.1	88,664.0
Current		
Mortgage (d)	-	10,440.8
Current portion of long-term debt and term loan	5,603.6	4,438.2
	5,603.6	14,879.0
Total borrowings	75,193.7	103,543.0

(a) Long-term debt

Long-term debt consists of capital leases for mobile and other equipment. The capital leases expire between 2018 and 2022. The principal outstanding at September 30, 2017 is \$6,002,245 (December 31, 2016 – \$882,946).

(b) Senior secured notes

In September 2013, the Company issued promissory notes (the “Notes”) in the aggregate principal amount of \$30 million. The Notes had a maturity date of September 18, 2017 and bore interest at a rate of 8% per annum.

As additional consideration for the loan, the Company issued share purchase warrants entitling the holder to purchase up to an aggregate of 1,060,000 common shares of the unissued capital stock of the Company at a price of \$8.25 per share until September 18, 2017. The fair market value of each share purchase warrant was calculated using the Black-Scholes option pricing model at \$3.41. The related issuance costs were amortized over the term of the Notes.

The Company redeemed \$4.0 million of the notes in August 2015 and \$5.7 million in April 2016. On January 9, 2017, the Company redeemed in full the remaining \$20.3 million of the issued Notes.

(c) Term loan

CP Partnership secured project financing (the “Project Financing”) with a syndicate of institutional lenders led by a Canadian chartered bank in November 2013. The Project Financing was for an aggregate of up to \$102.7 million and included a development and construction loan facility of up to \$82 million (the “Construction Facility”). On July 30, 2015, CP Partnership converted the Construction Facility into an amortized term loan (the “Term Loan”) that matures on December 1, 2019. The balance of the Project Financing is in the form of an \$18.95 million letter of credit facility and a \$1.75 million revolving operating facility. The letter of credit facility is utilized primarily to secure certain obligations of CP Partnership under its Load Displacement Agreement and a debt service reserve fund.

The Project Financing comprises floating rate and fixed rate tranches. Interest rates on the floating rate tranche borrowings are based on either banker's acceptances or the Canadian chartered bank prime rate, at CP Partnership's option, plus an applicable margin. The fixed rate tranche bears an interest rate largely consistent with the floating rate tranche. The Company has entered into an interest rate swap on the floating rate tranche.

The Project Financing is primarily secured by a first priority security interest on existing and after acquired assets of CP Partnership.

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(Tabular amounts expressed in thousands except per share amounts)

As at September 30, 2017, CP Partnership had issued letters of credit totaling \$18.75 million (December 31, 2016 – \$18.75 million) under the letter of credit facility provided under the Project Financing.

For the quarter ended September 30, 2017, CP Partnership recorded interest expense of \$1,159,965 and financing expense of \$8,895 (year ended December 31, 2016 – \$5,071,014 and \$32,764 respectively). CP Partnership repaid \$495,000 of the floating rate tranche and \$102,222 of the fixed rate tranche during the third quarter of 2017 (year ended December 31, 2016 – \$6,029,000 and \$1,277,778 respectively).

As at September 30, 2017, CP Partnership held \$8.8 million of cash in restricted accounts (December 31, 2016 – \$10.3 million). Funds from restricted accounts are distributed in accordance with the terms of the Project Financing.

(d) Mortgage

In August 2015, the Company acquired the El Dorado Site. Consideration paid for the acquired assets included a US\$8.64 million vendor mortgage (the “Mortgage”). The Mortgage bore interest at a rate of 6% per annum, payable quarterly beginning on November 1, 2015, and had a maturity date on the earlier of December 1, 2016 or the day before any remodel, construction or addition of buildings and/or equipment at the El Dorado Site.

In 2016, the Mortgage was amended to provide for early repayment by the Company of US\$864,000 of the principal amount on November 1, 2016, to allow commencement of certain site preparation and preconstruction activities at the El Dorado Site. The Mortgage was subsequently amended to extend the maturity date to March 31, 2017.

On March 31, 2017, the Company repaid in full the remaining principal amount and accrued interest on the Mortgage.

8. REVOLVING CREDIT FACILITY

On January 9, 2017, the Company entered into a five-year \$130 million secured revolving asset based credit facility (the “Revolving Facility”) with a syndicate of institutional lenders. Under the terms of the Revolving Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, plus appraised values of certain forest licences, net of specific reserves. Borrowings can be in Canadian or US dollars. Interest rates on borrowings against the Revolving Facility are based on either the Canadian Dollar Offered Rate (“CDOR”) or the London Interbank Offered Rate (“LIBOR”) plus an applicable margin.

The portion of the commitment that is not drawn is subject to an unused line fee. The Revolving Facility is primarily secured by a first priority security interest on substantially all existing and after acquired lumber segment assets. The Company is subject to customary covenants, including a fixed charge coverage ratio.

Conifex primarily uses the Revolving Facility to finance working capital in its lumber segment and a portion of the capital expenditures related to the modernization and re-start of the sawmill complex in El Dorado, Arkansas, United States (the “El Dorado Site”).

As at September 30, 2017, the Company has drawn \$87.1 million of the Revolving Facility (December 31, 2016 – nil).

9. SHARE CAPITAL

On March 8, 2017, the Company completed a bought deal offering (the “Offering”) of 3,450,000 common shares at a price of \$3.05 per share for gross cash proceeds of \$10.5 million.

On March 9, 2017, the Company completed a non-brokered private placement of 1,600,000 common shares at a price of \$3.05 per share for gross cash proceeds of \$4.88 million.

Conifex Timber Inc.

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(Tabular amounts expressed in thousands except per share amounts)

In connection with the Offering and the non-brokered private placement, the Company paid the underwriters a cash fee in the amount of \$650,794 and incurred issuance costs of \$559,245. The costs associated with the Offering and private placement have been accounted for as a reduction of share capital. The net aggregate proceeds have been used to partially repay outstanding indebtedness under the Revolving Facility.

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount \$
Balance at December 31, 2015	21,111	157,835.6
Shares vested under share-based compensation plan during the nine months ending September 30, 2016	78	629.4
Balance at September 30, 2016	21,189	158,465.0
Shares vested under share-based compensation plan during the period October 1, 2016 to December 31, 2016	14	136.8
Balance at December 31, 2016	21,203	158,601.8
Public offering and private placement of common shares, net of issue costs	5,050	14,201.4
Shares vested under share-based compensation plan during the nine months ending September 30, 2017	181	1,456.3
Balance at September 30, 2017	26,434	174,259.5

10. INCOME TAX

The Company has not recognized current income tax expense during the third quarter of 2017 as the Company has non-capital loss carry forwards totaling approximately \$21.1 million as at December 31, 2016. Due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of its deferred tax assets available to reduce future taxable income.

11. SEGMENT INFORMATION

The Company is organized into business units based on its products and services and has two reportable segments:

- Lumber - The main activities of the lumber segment include timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing. The Company markets and distributes its lumber products through its wholly-owned subsidiaries Conifex Fibre Marketing Inc. ("CFMI"), Lignum, and Navcor Transportation Services Inc. ("Navcor"). CFMI, Lignum, and Navcor generate additional revenue from third party transactions.
- Bioenergy - The primary activities of the bioenergy segment are the generation of electrical power and the development of other opportunities in bioenergy and bioproducts which are complementary to the Company's harvesting and manufacturing operations.

Conifex Timber Inc.

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September 30, 2017 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

Summary by segment:

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
3 months ended September 30, 2017				
Sales to external customers	114,224.0	6,111.2	-	120,335.2
Operating income (loss)	8,503.8	2,550.4	(2,246.4)	8,807.8
Interest expense and accretion	-	(1,168.9)	(477.0)	(1,645.9)
Other expense	(34.7)	-	-	(34.7)
Foreign exchange loss	-	(0.1)	(969.4)	(969.5)
Net income (loss)	8,469.1	1,381.4	(3,692.8)	6,157.7
Amortization and depreciation	3,519.0	727.2	33.3	4,279.5
Capital expenditures	21,902.5	-	127.2	22,029.7
Identifiable assets	271,375.2	132,052.5	25,710.2	429,137.9
3 months ended September 30, 2016				
Sales to external customers	99,267.2	4,862.0	-	104,129.2
Operating income (loss)	5,575.7	(495.5)	(1,734.2)	3,346.0
Gain on disposal of assets	1.5	-	-	1.5
Interest expense and accretion	-	(1,269.2)	(979.5)	(2,248.7)
Other income	218.2	-	-	218.2
Foreign exchange gain (loss)	-	(1.3)	95.8	94.5
Net income (loss)	5,795.4	(1,766.0)	(2,617.9)	1,411.5
Amortization and depreciation	3,220.2	1,579.3	19.6	4,819.1
Capital expenditures	4,687.7	582.8	0.6	5,271.1
Identifiable assets	204,556.5	135,964.8	17,599.1	358,120.4
9 months ending September 30, 2017				
Sales to external customers	319,403.2	17,694.4	-	337,097.6
Operating income (loss)	17,454.2	4,675.5	(5,434.4)	16,695.3
Loss on disposal of assets	(14.0)	-	-	(14.0)
Interest expense and accretion	-	(3,537.0)	(2,477.6)	(6,014.6)
Other income	312.6	-	-	312.6
Foreign exchange loss	-	(4.0)	(1,991.2)	(1,995.2)
Net income (loss)	17,752.8	1,134.5	(9,903.2)	8,984.1
Amortization and depreciation	10,093.6	3,298.6	89.9	13,482.1
Capital expenditures	62,770.5	73.0	317.9	63,161.4
Identifiable assets	271,375.2	132,052.5	25,710.2	429,137.9

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2017 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

	Lumber	Bioenergy	Corporate & other	Consolidated
	\$	\$	\$	\$
9 months ended September 30, 2016				
Sales to external customers	289,723.7	17,588.6	-	307,312.3
Operating income (loss)	12,158.6	3,789.8	(4,452.9)	11,495.5
Gain on disposal of assets	47,986.3	-	-	47,986.3
Gain on revaluation	13,329.1	-	-	13,329.1
Interest expense and accretion	-	(3,852.9)	(3,211.1)	(7,064.0)
Other income	602.1	7.2	-	609.3
Foreign exchange loss	-	(1.3)	(1,232.6)	(1,233.9)
Net income (loss)	74,076.1	(57.2)	(8,896.6)	65,122.3
Amortization and depreciation	9,492.3	3,921.0	58.9	13,472.2
Capital expenditures	6,770.2	705.1	209.3	7,684.6
Identifiable assets	204,556.5	135,964.8	17,599.1	358,120.4

Revenues by geographic area were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
United States	69,159.5	65,996.1	195,447.0	183,722.2
Canada	27,728.3	19,124.0	73,995.1	65,980.1
Japan	10,841.6	7,821.9	26,743.7	22,561.4
China	9,518.2	8,994.1	30,627.0	27,154.2
Other	3,087.6	2,193.1	10,284.8	7,894.4
	120,335.2	104,129.2	337,097.6	307,312.3

All of the Company's harvesting, manufacturing and power generating operations are located in the interior region of British Columbia.

12. FINANCIAL INSTRUMENTS

The Company's cash, accounts receivable, other deposits and advances, operating loans, notes payable, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

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).

Conifex Timber Inc.

Notes to condensed consolidated interim financial statements

September 30, 2017 (unaudited)

(Tabular amounts expressed in thousands except per share amounts)

The following table summarizes the Company's financial instruments at September 30, 2017 and December 31, 2016, 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	September 30, 2017	December 31, 2016
		\$	\$
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	2,230.8	1,581.5
		2,230.8	1,581.5

13. SOFTWOOD LUMBER DISPUTE

On November 25, 2016, a coalition of U.S. lumber producers petitioned the U.S. Department of Commerce ("USDOC") and the U.S. International Trade Commission ("USITC") to investigate alleged subsidies to Canadian producers and levy countervailing and anti-dumping duties against Canadian imports of softwood lumber.

On April 24, 2017, the USDOC issued its preliminary determination and imposed a preliminary countervailing duty rate of 19.88% for "all other" Canadian lumber producers, including the Company. The countervailing duty was required to be posted by cash deposits on the exports of softwood lumber to the U.S. effective April 28, 2017 to August 26, 2017. On June 26, 2017, the USDOC issued its preliminary determination in the anti-dumping duty investigation and imposed an "all others" rate (which included the Company) of 6.87% to be posted by cash deposits on the exports of softwood lumber to the U.S. on or after June 30, 2017.

On April 24, 2017, the USDOC also made a preliminary determination that critical circumstances existed, which result in countervailing and anti-dumping duties on sales of softwood lumber applying retroactively effective 90 days prior to April 28, 2017 and June 30, 2017, respectively.

Subsequent to quarter end, on November 2, 2017, the USDOC announced final determinations in its countervailing and anti-dumping investigations. As a result of its findings, the USDOC lowered the final countervailing and anti-dumping duty rates to 14.25% and 6.58%, respectively, for "all other" Canadian lumber producers, including the Company. The final countervailing duty will not be collected until final determination by the USITC, which is expected to occur in December 2017. The Company has expensed \$8.0 million for the period April 28, 2017 to September 30, 2017 representing duties at the final rates determined by the USDOC.

On November 2, 2017, the USDOC also made a final determination that critical circumstances did not exist for countervailing duties, but did exist for anti-dumping duties. The Company has not accrued any retroactive anti-dumping duties, which could total approximately US\$1.5 million, in the current or previous quarters. Management believes that the critical circumstances finding for anti-dumping duty by the USDOC will not be upheld by the USITC in its final determination, consistent with the result of past softwood lumber disputes.

Together with other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests"), we categorically deny the U.S. allegations and disagree with the countervailing and anti-dumping determinations. Canadian Interests continue to defend the Canadian industry in this U.S. trade dispute. Depending on the outcome of the final phase of the investigation, Canadian Interests may appeal the decision of the USDOC and USITC to the appropriate courts, North American Free Trade Agreement panels and the World Trade Organization. Notwithstanding the final rates established in the investigations, the final liability for the assessment of countervailing and anti-dumping duties will not be determined until each annual administrative review process is complete.