

**Form 51-102F4**  
***Business Acquisition Report***

**Item 1 – Identity of Company**

**1.1 *Name and Address of Company***

Conifex Timber Inc. ("**Conifex**")  
980 - 700 West Georgia Street  
Vancouver, BC V7Y 1B6

**1.2 *Executive Officer***

The following executive officer of Conifex is knowledgeable about the Acquisition (as defined herein) and this report and may be contacted respecting the Acquisition and this report:

Yuri Lewis  
Chief Financial Officer and Corporate Secretary  
Telephone: (778) 331-8687

**Item 2 – Details of Acquisition**

**2.1 *Nature of Business Acquired***

On July 9, 2018, Conifex, through a wholly-owned subsidiary, completed the acquisition (the "**Acquisition**") of all of the outstanding membership interests of Suwannee Lumber Holding Company LLC, Suwannee Timber Management LLC and Caddo River Forest Products LLC (collectively, the "**BW Group**"). The Acquisition was completed pursuant to the terms of a securities purchase agreement (the "**Agreement**") among Conifex, its wholly-owned subsidiary, BW SLC Holdings LLC ("**BW SLC**"), an affiliate of Blue Wolf Capital Partners LLC, and the minority shareholders of Caddo River Forest Products LLC (together with BW SLC, the "**Vendors**"). A copy of the Agreement has been filed under Conifex's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The BW Group owns the Suwannee sawmill in Cross City, Florida (the "**Suwannee Mill**") and the Caddo River sawmill in Glenwood, Arkansas (the "**Caddo River Mill**"), which both primarily produce Southern Yellow Pine softwood lumber and specialty products like decking. The Suwannee Mill and the Caddo River Mill each have an annual dimension lumber capacity of approximately 185 million board feet on a two-shift basis.

**2.2 *Acquisition Date***

July 9, 2018.

### 2.3 *Consideration*

Pursuant to the Agreement, the total purchase price paid for the Acquisition on closing was: (i) US\$153.1 million plus US\$19.8 million (representing the estimated net working capital of the BW Group on closing) in cash; (ii) 9,273,291 common shares of Conifex ("**Common Shares**"); and (iii) 3.5 million warrants (the "**Warrants**") to purchase Common Shares for a period of five years after closing at an exercise price of \$8.78 per share. If any of the Warrants cannot be exercised at the end of the five-year term due to a voluntary share cap restriction equal to 19.9% of the outstanding Common Shares, then the term of such number of Warrants that cannot be exercised will be extended for an additional one-year.

The cash portion of the purchase price was paid by Conifex using the net proceeds from the Offering (see below) and borrowings under Conifex's US\$225 million senior secured credit facility, which was completed by Conifex on the closing date of the Acquisition.

On June 19, 2018, Conifex completed a short form prospectus offering (the "**Offering**") of 10,806,332 subscription receipts ("**Subscription Receipts**") at a price of \$6.00 per Subscription Receipt for aggregate gross proceeds of \$64.8 million. The Offering was completed through a syndicate of underwriters led by Raymond James Ltd. ("**Raymond James**") and including CIBC Capital Markets and RBC Capital Markets. The Subscription Receipts, including conversion, were governed by a Subscription Receipt Agreement among Raymond James, Conifex and Computershare Trust Company of Canada dated June 19, 2018. Each Subscription Receipt entitled the holder thereof to one Common Share on closing of the Acquisition. On July 9, 2018, in connection with the closing of the Acquisition, a total of 10,806,322 Common Shares were issued to holders of Subscription Receipts.

### 2.4 *Effect on Financial Position*

Conifex intends to integrate the operations of the BW Group into its existing lumber operations.

Other than as may be disclosed herein, Conifex presently has no plans or proposals for material changes in the business of Conifex or the acquired business which may have a significant effect on the financial performance and financial position of Conifex.

### 2.5 *Prior Valuations*

None.

### 2.6 *Parties to Transaction*

The Acquisition was not completed with an informed person, associate or affiliate of Conifex.

### 2.7 *Date of Report*

September 19, 2018.

### **Item 3 – Financial Statements and Other Information**

The following financial statements are attached as Schedule "A" hereto and constitute and form an integral part of this report:

- (i) the unaudited *pro forma* consolidated financial statements of Conifex as at March 31, 2018 and for the three month period ended March 31, 2018 and for the year ended December 31, 2017, together with the notes thereto;
- (ii) the unaudited consolidated financial statements of the BW Group as at March 31, 2018 and for the three month period ended March 31, 2018 and for the year ended December 31, 2017, together with the notes thereto;
- (iii) the audited financial statements of the BW Group as at December 31, 2017 and 2016 and for each of the years then ended, and the notes thereto together with the auditor's report thereon.

**The consent of EisnerAmper LLP, the auditors of the BW Group on closing, for the inclusion of their audit report with respect to the foregoing financial statements described in paragraph (ii) and (iii) above has not been sought or provided.**

## Schedule "A"

### Financial Statements

#### **BW Group Financial Information<sup>1</sup>**

Audited combined financial statements of the BW Group for the years ended December 31, 2017 and 2016

Appendix A

Unaudited combined financial statements of the BW Group for the three-month period ended March 31, 2018

Appendix B

#### **Conifex *Pro Forma* Financial Information**

Conifex *pro forma* consolidated financial information

Appendix C

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<sup>1</sup> The consolidated financial statements of the BW Group are presented in U.S. Dollars.

**APPENDIX A**

**AUDITED COMBINED FINANCIAL STATEMENTS OF THE  
BW GROUP FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

(See attached.)

Combined Financial Statements and

Independent Auditors' Report

**BW Group**

December 31, 2017 and 2016

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Managers of  
Caddo River Forest Products, LLC, BW SLC Holdings, LLC, Suwannee Lumber Holding Company, LLC  
and Suwannee Timber Management, LLC

### **Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of Caddo River Forest Products, LLC and the carved-out portions of BW SLC Holdings, LLC, Suwannee Lumber Holding Company, LLC, and Suwannee Timber Management, LLC (collectively, referred to as “BW Group” or the “Company”), which comprise the combined balance sheets as of December 31, 2017 and 2016, and the related combined statements of operations, members’ equity (deficiency), and cash flows for each of the years then ended, and the related notes to the combined financial statements.

### ***Management’s Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, as promulgated by the Auditing Standards Board, the senior committee of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the BW Group as of December 31, 2017 and 2016, and the combined results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

*EisnerAmper LLP*

EISNERAMPER LLP  
Iselin, New Jersey  
May 14, 2018

EISNERAMPER  
LLP



# BW Group

## Combined Balance Sheets

December 31,	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 9,625,819	\$ 1,919,318
Restricted cash	107,982	2,308,005
Accounts receivable, net	4,906,278	2,788,828
Due from related parties	1,145,725	31,077
Inventories, net	13,945,032	9,734,308
Prepaid expenses and other current assets	1,281,987	926,664
Total current assets	31,012,823	17,708,200
Spare parts, net and other assets	2,517,055	2,540,713
Goodwill	1,030,026	1,030,026
Intangibles, net	1,314,717	1,547,311
Property, plant and equipment, net	51,277,717	28,710,940
Total assets	\$ 87,152,338	\$ 51,537,190
<b>Liabilities and Members' Equity (Deficiency)</b>		
<b>Current liabilities:</b>		
Accounts payable, accrued expenses, and other current liabilities	\$ 4,533,870	\$ 4,690,443
Due to related parties	558,746	-
Line of credit	2,215,391	1,649,243
Timber contract liabilities	4,137,716	-
Current maturities of long-term debt, net of unamortized deferred loan costs	6,864,092	7,080,623
Total current liabilities	18,309,815	13,420,309
Long-term debt, less current maturities, net of unamortized deferred loan costs	51,186,645	38,282,845
Environmental liability	1,145,521	2,977,534
Subordinated notes payable - related party	2,169,292	-
Capital lease obligations, net of current portion	178,307	-
Total liabilities	72,989,580	54,680,688
<b>Commitments and contingencies (Note 14)</b>		
<b>Members' equity (deficiency):</b>		
Total members' equity (deficiency)	14,162,758	(3,143,498)
Total liabilities and members' equity (deficiency)	\$ 87,152,338	\$ 51,537,190

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

# BW Group

## Combined Statements of Operations

	<b>Year Ended December 31, 2017</b>	<b>Year Ended December 31, 2016</b>
<b>Sales, net</b>	\$ 101,085,362	\$ 89,134,634
<b>Cost of sales</b>	84,501,819	69,430,666
Gross profit	16,583,543	19,703,968
<b>Operating expenses:</b>		
Selling, general, and administrative expenses	9,425,062	6,995,561
Depreciation and amortization	317,962	368,922
Total operating costs and expenses	9,743,024	7,364,483
Operating income	6,840,519	12,339,485
<b>Other (income) expense:</b>		
Interest expense	5,120,955	5,185,526
Loss on disposal of assets	60,103	-
Other (income) expense	(73,962)	691,596
Total other expense	5,107,096	5,877,122
<b>Net income</b>	<b>\$ 1,733,423</b>	<b>\$ 6,462,363</b>

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

# BW Group

## Combined Statements of Members' Equity (Deficiency)

Years Ended December 31, 2017 and 2016

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	<b>Total Members'</b>
	<b>Equity (Deficiency)</b>
<b>Balance, January 1, 2016</b>	\$ (21,441,431)
Capital contributions	10,998,824
Net increase in members' investment	4,066,991
Members' distributions	(3,230,245)
Net income	6,462,363
<b>Balance, December 31, 2016</b>	<u>(3,143,498)</u>
Capital contributions	14,961,127
Net increase in members' investment	3,234,043
Members' distributions	(2,622,337)
Net income	1,733,423
<b>Balance, December 31, 2017</b>	<u>\$ 14,162,758</u>

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

# BW Group

## Combined Statements of Cash Flows

	Year Ended December 31, 2017	Year Ended December 31, 2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,733,423	\$ 6,462,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,316,631	2,713,241
Amortization of deferred loan costs	661,262	634,833
Bad debt expense	15,313	-
Loss on asset disposal	60,103	-
Non-cash interest expense	152,081	-
Changes in assets and liabilities:		
Accounts receivable	(2,132,763)	(73,523)
Due from related parties	(1,114,648)	598,431
Inventories	(4,210,724)	(1,155,395)
Prepaid expenses and other current assets	(354,284)	159,182
Spare parts and other assets	(76,678)	(606,864)
Accounts payable, accrued expenses, and other current liabilities	(248,165)	1,076,745
Due to related parties	558,746	-
Timber contract liabilities	4,137,716	-
Environmental liability	(1,832,013)	(223,987)
Net cash provided by operating activities	1,666,000	9,585,026
<b>Cash flows from investing activities:</b>		
Restricted cash	2,200,023	(2,092,115)
Proceeds from disposal of property, plant and equipment	66,263	-
Investment in property, plant and equipment	(26,452,179)	(3,078,806)
Net cash used in investing activities	(24,185,893)	(5,170,921)
<b>Cash flows from financing activities:</b>		
Payment of financing costs	(265,308)	(8,420)
Payment of capital lease obligation	(55,101)	(64,400)
Repayment of debt	(9,916,622)	(6,775,099)
Payment of assumed liability (see Note 3)	-	(6,238,136)
Members' distributions	(2,622,337)	(3,230,245)
Capital contributions from members	14,961,127	5,738,960
Net increase in members' investment	3,234,043	4,066,991
Proceeds from line of credit	3,221,300	992,765
Proceeds from issuance of debt	10,000,000	-
Proceeds from issuance of debt, related party	9,500,000	-
Proceeds from issuance of subordinated debt, related party	2,169,292	-
Net cash provided by (used in) financing activities	30,226,394	(5,517,584)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>7,706,501</b>	<b>(1,103,479)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,919,318</b>	<b>3,022,797</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 9,625,819</b>	<b>\$ 1,919,318</b>
<b>Supplement disclosure of cash flow information:</b>		
Cash paid for interest	\$ 3,922,641	\$ 4,925,710
<b>Non cash transactions:</b>		
Property, plant and equipment acquired through financing	\$ 325,000	\$ 454,829
Property, plant and equipment contributed with acquisition	\$ -	\$ 11,000,000
Assumed liability in connection with acquisition	\$ -	\$ 6,238,136
Inventory contributed in connection with acquisition	\$ -	\$ 498,000

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

# BW Group

## Notes to Combined Financial Statements

### Note 1 – Description of Business, Basis of Presentation and Principles of Combination

#### Description of Business

The accompanying combined carve-out financials statements include Caddo River Forest Products, LLC (“CRFP”), BW SLC Holdings, LLC Carve-Out (“Parent” or “BWSLC”), Suwannee Lumber Holding Company, LLC Carve-Out (“SLHC”), and Suwannee Timber Management, LLC Carve-Out (“STM”) (collectively, referred to as “BW Group” or the “Company”). The financial statements being combined are related through common ownership and management. BW SLC Holdings, LLC (“Ultimate Parent”) is the sole member of Suwannee Lumber Holding Company, LLC and Suwannee Timber Management, LLC, and the majority member (65%) of Caddo River Forest Products, LLC. BW Group is engaged in the lumber business, including lumber manufacturing, distribution and timber dealership. The BW Group’s products are sold through direct sales employees to lumber treaters, distributors, wholesalers, and retailers, as well as other industrial consumers including remanufacturers, pulp and paper mills, and bioenergy plants. The Company’s products are primarily for domestic consumption and marketed throughout the Southeast United States.

A summary of the combination of BW Group is as follows:

- All of the accounts of CRFP will be included in BW Group. CRFP was established as a limited liability company in the State of Delaware on July 28, 2016 and includes its two wholly-owned subsidiaries, Caddo River, LLC (“CRL”) and Caddo River Contracting, LLC (“CRC”). CRFP was established to acquire all of the personal and real property assets of CRL and CRC and includes its sawmill operations in Glenwood, Arkansas;
- BW SLC is including an environmental insurance policy that benefits the lumber operations of BW Group. BW SLC Holdings, LLC is owned by BW SLC AIV III, L.P. (the “Principal Member”) (86%), a wholly-owned subsidiary of Blue Wolf Fund III Investors, and BW SLC Investment Holdings, LLC (“Investment Holdings”) (12%) with the balance (2%) held by outside members (together with Investment Holdings and the Principal Member, the “Owners”);
- SLHC is including all of its operations as well as those of its two direct subsidiaries, Suwannee Lumber Company, LLC (“SLC”) and BW SLC Real Estate Holdings, LLC (“SRE”). Suwannee River Mulch, LLC (“SRM”), another subsidiary of Suwannee Lumber Holding Company, LLC, is not included in BW Group as the mulch operations are not included in the proposed transaction that is discussed in the subsequent events footnote. Suwannee Lumber Holding Company, LLC was established as a limited liability company in the State of Delaware on May 21, 2015 and SLC and SRE were established on June 28, 2013; and
- All accounts of STM are being included in BW Group, with the exception of certain land holdings and the related debt and expenses. Suwannee Timber Management, LLC was established as a limited liability company in the State of Delaware on December 18, 2013. Its operations primarily involve buying timber deeds, coordinating harvests with contracted loggers and haulers, and selling delivered timber to regional forest products companies including sawmills, pulp and paper mills, mulch mills, bioenergy plants, and other industrial fiber consumers.

BW Group is a carved-out portion of BW SLC Holding, LLC’s historical lumber business that is being combined for a potential transaction that is discussed in the subsequent events disclosure.

# BW Group

## Notes to Combined Financial Statements

BW Group utilizes BW SLC Holding, LLC's centralized processes and systems for cash management, payroll, purchasing and distribution. The allocation of inventory, accounts receivable, accounts payable, sales and cost of sales was done on a specific identification basis whereby management evaluated 1) inventory on a product by product basis and 2) accounts receivable, accounts payable, sales and cost of sales on an invoice by invoice basis. Revenue and related pricing allowances and discounts were allocated on an invoice by invoice basis. For prepaid expenses, fixed assets, intangible assets and accrued liabilities, the Company utilized various allocation methodologies including specific identification of costs and proportionate revenue. The BW Group carve-out is based on a number of assumptions and there are multiple methodologies and approaches that could have been adopted. Management considers the allocations to be reasonable and the allocation methodologies have been consistently applied. The financial information included herein may not necessarily reflect the financial position, results of operations, changes in members equity (deficiency) and cash flows of BW Group in the future or what they would have been had BW Group been a separate, stand-alone entity during the periods being presented.

### **Basis of Presentation**

The accompanying combined financial statements of BW Group are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. The financial statements of BW Group have been prepared on a carve-out basis and represent the combined lumber business of BWSLC, SLHC, STM and CRFP and is not a stand-alone entity. Allocation methodologies discussed above with respect to BW Group have been consistently applied.

The combined financial statements representing the historical operations of BW SLC Holding, LLC's lumber businesses have been derived from the historical accounting records of BW SLC Holdings, LLC, Suwannee Lumber Holding Company, LLC, Suwannee Timber Management, LLC and Caddo River Forest Products, LLC and are presented on a carve-out basis. The combined financial statements reflect the assets, liabilities, revenues and expenses directly attributable to the BW Group, as well as allocations deemed reasonable by management, to present the financial position, results of operations, changes in members' equity (deficiency) and cash flows of BW Group on a stand-alone basis in the combination. These combined financials statements have been prepared to facilitate the sale of BW Group which reflect only the assets, liabilities, and operations that will be included in the sale. The assets and liabilities not included in the sale are reflected in the combined statements of members' equity (deficiency) as net increase in members' investment.

### **Principles of Combination**

The accompanying combined financial statements include the historical accounts of the BW Group which is the business that is contemplated by the transaction disclosed in the subsequent event footnote. All significant intercompany balances and transactions have been eliminated upon combination.

## **Note 2 – Summary of Significant Accounting Policies**

### **Use of Estimates**

The preparation of combined financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and

# BW Group

## Notes to Combined Financial Statements

expenses during the reporting period. Areas involving significant judgment include the BW Group carve-out methodology, the accounts receivable allowances, the cost of standing timber inventory which is based on the purchase price in relation to the estimated volume of timber recoverable, inventory reserve, the economic lives of fixed assets and intangible assets, and the environmental liability. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Company considers all short-term, highly liquid investments with a maturity at the date of purchase of three months or less to be cash equivalents.

### **Restricted Cash and Letter of Credit**

As of December 31, 2017 and 2016, SLHC was over-funded on its PNC Bank revolving line of credit resulting in excess cash on hand totaling \$107,982 and \$2,308,005, respectively. These funds are restricted pursuant to the terms of the related credit agreement (see Note 10). As of December 31, 2017 and 2016, the Company had one outstanding letter of credit totaling \$39,000. Pursuant to its workers' compensation insurance and as required by the Florida Department of Financial Services' Division of Workers' Compensation, the letter of credit secures potential future obligations of workers' compensation claims and is reviewed annually for renewal.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable in the accompanying combined balance sheets is reported net of the estimated allowance for doubtful accounts. To provide for accounts receivable that could become uncollectable in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The Company periodically evaluates receivables for collectability on an individual account basis and records an allowance for any amounts estimated to be uncollectible. When preparing these estimates, the Company considers a number of factors, including aging of the customers' accounts, past transactions with the customers, historical trends, and other information. The Company incurred bad debt expense of \$15,313 and \$0 for the years ended December 31, 2017 and 2016, respectively. The allowance for doubtful accounts was \$10,000 as of December 31, 2017 and 2016.

### **Inventories**

Lumber inventories are stated at the lower of cost or net realizable value, using an average costing method. Inventory costs include direct and indirect production costs and manufacturing overhead. Standing timber inventories include timber purchased through timber deeds and are stated at cost less accumulated depletion for timber previously harvested. Standing timber inventory is reduced by actual timber harvested (depletion) using a depletion rate determined by the purchase price in relation to the estimated volume of timber recoverable. Timber deeds, also called timber rights, allow the Company to harvest timber on timberlands it does not own over a specified period of time (typically less than 2 years). While forests are subject to a number of natural hazards including fire, hurricanes, insects, and disease, the Company believes its risk of loss is minimized by the geographic diversity of its standing timber, insect and disease mitigation resources, and relatively short harvest periods. Standing timber inventories are reviewed for impairment whenever triggering events, such as the presence of natural hazards, or changes in circumstances, such as market

# BW Group

## Notes to Combined Financial Statements

conditions, indicate that the carrying value of those assets may not be recoverable. The Company does not maintain insurance against loss of standing timber or harvested timber in transit. As of December 31, 2017 and 2016, there was no allowance for inventory obsolescence.

### **Property, Plant and Equipment**

As part of the business combination accounting and in accordance with ASC 805 – Business Combinations and ASC 360 – Property, Plant and Equipment, the property, plant and equipment acquired on June 28, 2013 and September 20, 2016 by SLC and CRFP, respectively, was recorded at fair value based on valuations by professional third-party appraisers that the Company engaged to assist in determining fair value. All other purchases of property, plant and equipment are initially recorded at the cost required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Depreciation of property, plant and equipment is based on the estimated useful lives of the assets, generally 5 to 39 years, and is calculated using the straight-line method. Depreciation expense for the years ended December 31, 2017 and 2016 was \$4,084,037 and \$2,480,647, which is included in cost of sales and depreciation and amortization on the combined financial statements. The cost of day-to-day servicing on property, plant and equipment is expensed when incurred. Property, plant and equipment in the accompanying combined balance sheets is stated at cost less accumulated depreciation.

### **Timber Deposits**

Timber deposits represent non-interest bearing deposits held in escrow to secure against unmitigated damages to the landowner's real property during timber harvesting. Once the harvesting obligations are completed to the satisfaction of both parties, the funds are returned to the Company. Timber deposits were \$372,300 and \$267,322 as of December 31, 2017 and 2016, respectively, and are included in Spare parts, net and other assets on the accompanying combined balance sheets.

### **Goodwill and Intangible Assets**

The Company records the excess purchase price of identified tangible and intangible assets acquired over their estimated fair value as goodwill. The Company's goodwill arose from SLC's acquisition of Suwannee Lumber Manufacturing Co. on June 28, 2013 and is evaluated for impairment annually or more frequently if impairment indicators exist. The evaluation requires a comparison of the estimated fair value of the Company to the sum of the carrying value of the assets and liabilities. If the sum of the carrying value of the assets and liabilities exceeds the fair value, the carrying value of the goodwill is reduced to its implied estimated fair value through an adjustment to the goodwill balance, resulting in an impairment charge. For the years ended December 31, 2017 and 2016, no impairment of goodwill was recorded.

Identified intangible assets acquired from Suwannee Lumber Manufacturing Co. and Subsidiaries on June 28, 2013 were recorded at fair value based on valuations by professional third-party appraisers, that the Company engaged to assist in determining fair value, in connection with the purchase accounting of those transactions. All other purchases of identified intangible assets are initially recorded at cost. The Company evaluates for impairment annually or more frequently if events or circumstances indicate that carrying amounts may not be recoverable by estimating the future cash flow from the associated asset group in accordance with ASC 350 (see Note 7). For identified intangible assets with definite useful lives, the Company amortizes the cost over the estimated useful lives using the straight-line method. For intangible assets with indefinite or indeterminate useful lives, the Company does not amortize the cost and assesses annually whether events or circumstances continue to support an indefinite useful life. If an intangible asset

# BW Group

## Notes to Combined Financial Statements

with an indefinite useful life is subsequently determined to have a finite useful life, the asset is then tested for impairment and amortized prospectively over its estimated remaining useful life. No impairment resulted for identified intangible assets for the years ended December 31, 2017 and 2016.

### **Impairment of Long-Lived Assets including Intangible Assets Subject to Amortization**

Long-lived assets are reviewed for impairment whenever triggering events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment charge on long-lived assets recorded for the years ended December 31, 2017 and 2016.

### **Deferred Loan Costs**

Amounts paid or payable to lenders in connection with the establishment of the Company's existing credit facilities are deducted from the carrying value of the related financing liability and amortized as a component of interest expense over the life of the facility using the effective interest method. The amortization of deferred loan costs recognized in 2017 and 2016 include the amortization of costs to establish STM's revolving credit facilities and timber notes related to timber holdings; the amortization of costs to establish SLC's first-lien term loans, revolving credit facility, associated second-lien term facilities, and incremental borrowing; and the amortization of costs to establish CRFP's term loans and incremental borrowing (see Note 11). As of December 31, 2017 and 2016, deferred loan costs were included in other assets and current and long-term debt totaling \$3,353,743 and \$3,088,437, less accumulated amortization of \$1,657,163 and \$995,901, respectively. Amortization expense for deferred loan costs was \$661,262 and \$634,833 for the years ended December 31, 2017 and 2016, respectively.

### **Fair Value of Financial Instruments**

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurement and Disclosures provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable market based inputs or observable inputs that are corroborated by market data.

Level 3 – Unobservable inputs reflecting the reporting entity's own assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair

# BW Group

## Notes to Combined Financial Statements

values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Short-term financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities, and consist primarily of instruments without extended maturities, for which the fair value, based on management's estimates, approximates their carrying values. Borrowings on the Company's credit facilities and term loans bear interest at what is estimated to be current market rates of interest. Accordingly, fair values approximate carrying values for these instruments.

### **Revenue Recognition**

The Company's revenue consists primarily of sales of finished lumber, lumber by-products, and timber, net of discounts. Revenue includes delivery charges to customers. The sale of these products is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the agreed upon monies. The Company offers certain cash discounts in an effort to accelerate collection of sales. Sales discounts and adjustments of \$653,192 and \$504,004 were recognized during the years ended December 31, 2017 and 2016, respectively, as a reduction to sales on the combined statement of operations.

### **Shipping and Handling**

The Company considers its shipping and handling activities a service related to sales and accordingly classifies related expenses as cost of sales.

### **Advertising Costs**

Advertising costs are expensed as incurred and totaled \$168,258 and \$47,480 for the years ended December 31, 2017 and 2016, respectively.

### **Income Taxes**

BWSLC, CRFP, SLHC, and STM are limited liability companies taxed as partnerships. As such, items of income and expense are passed directly through to their respective members for federal income tax purposes. Therefore, no income tax provision is recorded by the Company. The Company accounts for uncertain tax positions as required by the guidance in ASC 740, Income Taxes. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. For the years ended December 31, 2017 and 2016, the Company did not recognize any asset or liability as uncertain tax positions.

### **Concentration of Credit Risk and Significant Customers**

For the year ended December 31, 2017, two customers accounted for approximately 25% and 19% of revenue, respectively, for a total of 44%. These same customers accounted for approximately 12% and 20%, respectively, of accounts receivable for a total of 32%.

# BW Group

## Notes to Combined Financial Statements

For the year ended December 31, 2016, two customers each accounted for approximately 20% of revenue for a total of 40%. These same customers each accounted for approximately 25% and 25% of accounts receivable for a total of 50%.

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable, but instead performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts.

The Company maintains cash and cash equivalents at multiple financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The Company regularly maintains balances in these accounts of amounts in excess of the insured limits and has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk related to these accounts or of its cash and cash equivalents generally.

### **Equity-Based Compensation**

Profits Interest are non-voting economic interests in the Company in the form of Class B Common Units. The fair value of these profits interests is recognized in the period a qualifying event, as defined, is deemed probable of occurring (see Note 18).

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange for those goods or services. The standard will be effective for annual reporting periods beginning after December 15, 2018. Early adoption was permitted for annual periods ending as early as December 15, 2017. The new standard permits the use of either the retrospective or cumulative effect transition method on adoption. The Company is currently evaluating the effect that this update will have on its combined financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330). Topic 330 previously required the Company to measure inventory at the lower of cost or market. Market could have been replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments in this update required the Company to measure inventory at the lower of cost and net realizable value. The Company adopted this ASU in 2017. The inventory balance at December 31, 2017 was not affected by this update.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the combined balance sheet for substantially all lease arrangements. The guidance is required to be adopted in the fiscal years beginning after December 15, 2019, with early adoption permitted. Management is evaluating the impact this ASU will have on the Company's combined financial statements and related disclosures.

# BW Group

## Notes to Combined Financial Statements

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 7230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, including those related to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, and distributions received from equity method investees. This guidance is effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The guidance must be adopted on a retrospective basis and must be applied to all periods presented, but may be applied prospectively if retrospective application would be impracticable. Management is evaluating the impact this ASU will have on the Company's combined financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): "Restricted Cash (a consensus of the FASB Emerging Issues Task Force)". The update addresses the diversity in the industry with respect to classification and presentation of changes in restricted cash on the statements of cash flows. These amendments require that a statement of cash flows explain the restricted cash change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this update are effective for fiscal years beginning after December 15, 2018. The Company does not expect this to have a significant impact on the financial statements.

In January 2017, the FASB issued ASU No. 2017-01: Business Combinations (Topic 805) to clarify the definition of a business. The new standard is effective for fiscal years beginning after December 15, 2018 and may be adopted early. Management is evaluating the impact this ASU will have on the Company's combined financial statements.

### **Subsequent Events**

The Company evaluated all events and or transactions that occurred after December 31, 2017 through May 14, 2018, the date the combined financial statements were available to be issued and is not aware of any subsequent events that would require specific recognition or disclosure in the combined financial statements, except as noted below.

***Sale of BW Group*** – On March 19, 2018, the Principal Member executed a non-binding term sheet to sell the BW Group. Consummation of the transaction is subject to completion of due diligence by the potential purchaser and other customary closing procedures. There is no assurance that this transaction will be completed.

### **Note 3 – Contribution Agreement – Caddo River Forest Products, LLC**

On September 20, 2016, the members of CRFP entered into an agreement to contribute specified assets and liabilities into CRFP. A portion of the assets contributed were certain lumber manufacturing assets that were shuttered in 2010 through bankruptcy proceedings. One of the members also agreed to contribute \$21,000,000 of cash consideration consisting of an up-front payment of \$8,030,681 and an agreement to contribute additional cash of \$12,969,319 according to the needs of the CRFP's efforts to restart the manufacturing facility. The transaction was accounted for using the acquisition method of accounting and the assets acquired and liabilities assumed were accounted for at their estimated fair values at the acquisition date based on a valuation performed by management with the assistance of an independent valuation firm.

# BW Group

## Notes to Combined Financial Statements

Real property assets were valued using Level 2 inputs based principally on reliable market information including comparable completed sales. Personal property assets included inventory and equipment and were valued using Level 2 inputs based principally on reliable market information including comparable completed sales.

A summary of the contributions made by the members of CRFP is as follows:

Cash purchase consideration	\$ 8,030,681
Committed purchase consideration	12,969,319
Fair value of contributed net assets	5,259,864
Total consideration	<u>\$ 26,259,864</u>

The following table summarizes the estimated fair values of intangible and tangible assets acquired and liabilities assumed at the date of contribution:

Cash	\$ 1,000,000
Restricted cash	7,030,681
Inventory, net	498,000
Buildings and fixtures	5,850,000
Equipment, trucks and trailers	4,600,000
Land	550,000
Short-term debt assumed	(6,238,136)
Contra equity, balance of agreement to contribute	12,969,319
Total consideration	<u>\$ 26,259,864</u>

### Note 4 - Accounts Receivable, Net

Accounts receivable, net are comprised of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Accounts receivable - lumber	\$ 4,410,066	\$ 2,494,465
Accounts receivable - timber	506,212	304,363
Allowance for uncollectable accounts receivables	(10,000)	(10,000)
Account receivable, net	<u>\$ 4,906,278</u>	<u>\$ 2,788,828</u>

### Note 5 – Note Receivable – Related Party

On January 17, 2017, Forestry Resources, LLC (“FRI”), a company currently under common control of BW SLC Holdings LLC, entered into an agreement with a third party for the exclusive right and duty to harvest, remove and purchase specific timber prior to December 31, 2017. On December 20, 2017, the Company, FRI and the third party entered into an amendment to the original agreement extending the term until October 31, 2018. The terms of the amended agreement required an upfront prepayment of approximately \$987,000 which was advanced by the Company. As the timber is harvested and used in the



# BW Group

## Notes to Combined Financial Statements

### Note 8 – Property, Plant and Equipment, Net

Property, plant and equipment, net, comprised the following as of December 31:

	<b>Estimated Useful Life (In years)</b>	<b>2017</b>	<b>2016</b>
Land	N/A	\$ 1,278,419	\$ 1,277,266
Construction-in-progress	N/A	857,101	2,091,507
Equipment, trucks and trailers	5-10	53,036,214	25,257,889
Buildings and fixtures	7-39	7,815,232	7,815,232
		<u>62,986,966</u>	<u>36,441,894</u>
Accumulated depreciation		(11,709,249)	(7,730,954)
		<u>\$ 51,277,717</u>	<u>\$ 28,710,940</u>

For the years ended December 31, 2017 and 2016, depreciation expense was \$4,084,037 and \$2,480,647, respectively.

### Note 9 – Accounts Payable, Accrued Expenses, and Other Current Liabilities

Accounts payable, accrued expenses, and other current liabilities consisted of the following as of December 31:

	<b>2017</b>	<b>2016</b>
Accounts payable	\$ 2,063,978	\$ 2,241,059
Outstanding check liability	1,007,525	836,986
Employee related payables	1,055,048	1,169,009
Other payables	293,648	443,389
Capital lease obligations	113,671	-
	<u>\$ 4,533,870</u>	<u>\$ 4,690,443</u>

### Note 10 – Lines of Credit

SLHC's PNC Bank Revolving LOC was undrawn as of December 31, 2017 and 2016. This PNC Bank Revolving LOC bears interest at PNC's base commercial lending rate plus 1.0% yielding interest rates of 5.00% and 4.50% as of December 31, 2017 and 2016, respectively. Interest payments are due on a monthly basis. This PNC Bank Revolving LOC has a maturity date of May 21, 2020. The Company paid approximately \$1,354,534 of loan origination costs in connection with this PNC Bank Revolving LOC and the PNC Bank Term Loan A, of which \$501,679 was in connection with this PNC Bank Revolving LOC. Loan origination costs of \$100,336 and \$100,336 were amortized in the accompanying combined statement of operations for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, unamortized loan origination costs were \$242,314 and \$342,650, respectively, and are shown in other assets on the accompanying combined balance sheets.

## BW Group

### Notes to Combined Financial Statements

On December 1, 2017, STM renewed its \$5,000,000 revolving line of credit with Farm Credit of Florida to fund certain operating activities. Specifically, the facility is limited to purchase lump-sum timber deeds and matures on September 1, 2018. The Farm Credit LOC bears interest at LIBOR plus 3.5% and is collateralized by the assets being financed. The interest rate and balance of the Farm Credit LOC as of December 31, 2017 and 2016 were 4.875% and 4.12% and \$2,215,391 and \$1,649,243, respectively. The Company paid \$35,910 of loan origination costs in connection with this Farm Credit LOC of which \$8,418 relates to the current renewal. For the years ending December 31, 2017 and 2016, \$7,379 and \$14,909 of these loan origination costs have been amortized through interest expense. The net balance of these loan origination costs as of December 31, 2017 and 2016 are \$7,928 and \$6,889, respectively, and are shown in prepaid expenses and other current assets on the accompanying combined balance sheets. The line of credit is guaranteed by BW SLC Holdings, LLC.

#### Note 11 – Long-Term Debt

A summary of the term-loans payable as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
SLHC's first PNC Bank term loan ("PNC Term Loan A") had an outstanding principal balance as of December 31, 2017 and 2016 of \$7,420,419 and \$12,706,004, respectively. This term loan bears interest at PNC's base commercial lending rate plus 2.50% or 6.75% and 6.25% as of December 31, 2017 and 2016, respectively. Interest payments are due on a monthly basis and quarterly principal payments in the amount of \$675,000 are required through March 1, 2020 with the remaining principal balance due May 21, 2020. The loan is secured by a first lien on the real and personal property assets and posted working capital collateral of the SLHC. SLHC paid \$1,354,534 of loan origination costs in connection with the PNC Term Loan A and the PNC Bank Revolving LOC, of which, \$852,855 was in connection with the PNC Term Loan A. Loan origination costs of \$170,571 were amortized in the accompanying combined statements of operations for the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, unamortized loan origination costs were \$411,934 and \$582,505, respectively, and are shown as a reduction of the PNC Term Loan A balance on the accompanying combined balance sheets.	\$7,008,485	\$12,123,499

## BW Group

### Notes to Combined Financial Statements

SLHC's second PNC Bank term loan ("PNC Term Loan B") was established on April 6, 2017 and had an outstanding principal balance as of December 31, 2017 of \$10,000,000. This term loan bears interest at LIBOR plus 3.50% or 6.75% as of December 31, 2017. Interest payments are due on a monthly basis and quarterly principal payments in the amount of \$500,000 are required through March 1, 2020 with the remaining principal balance due May 21, 2020. The loan is secured by a first lien on the real and personal property assets and posted working capital collateral of SLHC. SLHC paid approximately \$157,470 of loan origination costs in connection with the PNC Term Loan B. Loan origination costs of \$28,739 were amortized in the accompanying combined statements of operations for the year ended December 31, 2017. As of December 31, 2017, unamortized loan origination costs were \$128,731 and are shown as a reduction of the PNC Term Loan B balance on the accompanying combined balance sheet.

9,871,269 -

SLHC's SJC Direct Lending Fund Term Loan A ("SJC DLF A") had an outstanding principal balance as of December 31, 2017 and 2016 of \$28,345,738 and \$29,500,000, respectively. This SJC DLF A bears interest at LIBOR plus an applicable margin based on the SLHC's debt leverage ratio or 9.50% as of December 31, 2017 and 2016. Interest payments are due on a monthly basis. The SJC DLF A does not require scheduled principal payments through maturity of March 1, 2020. The loan is secured by a second lien on the real and personal property assets and posted working capital collateral of SLHC. SLHC paid \$1,680,626 of loan origination costs in connection with the SJC DLF A and the SJC DLF B loans, of which, \$1,479,954 has been allocated to this SJC DLF A based on the relative percentage of the total SJC DLF facilities. Loan origination costs of \$295,991 were amortized in the accompanying combined statements of operations for the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, unamortized loan origination costs were \$714,826 and \$1,010,817, respectively, and are shown as a reduction of the SJC DLF A balance on the accompanying combined balance sheet.

27,630,912 28,489,183

## BW Group

### Notes to Combined Financial Statements

SLHC's SJC Direct Lending Fund Term Loan B ("SJC DLF B") had an outstanding principal balance as of December 31, 2017 and 2016 of \$3,401,971 and \$3,540,502, respectively. This SJC DLF B bears interest at LIBOR plus an applicable margin based on the SLHC's debt leverage ratio or 9.50% as of December 31, 2017 and 2016. Interest payments are due on a monthly basis. The SJC DLF B does not require scheduled principal payments through maturity of March 1, 2020. The loan is secured by a second lien on the real and personal property assets and posted working capital collateral of SLHC. SLHC paid \$1,680,626 of loan origination costs in connection with the SJC DLF A and the SJC DLF B loans, of which, \$200,672 has been allocated to this SJC DLF B based on the relative percentage of the total SJC DLF facilities. Loan origination costs of \$40,134 were amortized in the accompanying combined statements of operations for the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, unamortized loan origination costs were \$96,926 and \$137,060, respectively, and are shown as a reduction of the SJC DLF B balance on the accompanying combined balance sheets.

3,305,045	3,403,442
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STM's Farm Credit timber note had an outstanding principal balance of \$367,651 and \$905,130 as of December 31, 2017 and 2016, respectively. This note bears interest at LIBOR plus 3.63% yielding an interest rate of 5.00% and 4.25% as of December 31, 2017 and 2016, respectively. Interest payments are due on a monthly basis. The note requires monthly principal payments as the related timber inventory is harvested and sold. The first amendment to this note was effective as of November 21, 2017, extending the maturity date to July 1, 2018. The note is secured by a first lien on the related timber inventory and a second lien on the related land of STM, which is being carved out as it is not part of the BW Group. STM paid \$25,785 of loan origination costs in connection with the note. For the year ending December 31, 2017 and 2016, \$12,615 and \$12,892, respectively, of these loan origination costs have been amortized through interest expense on the accompanying combined statements of operations. As of December 31, 2017 and 2016, unamortized loan costs were \$0 and \$12,615, respectively, and are shown as a reduction of the Farm Credit – Timber note balance on the accompanying combined balance sheets.

367,651	892,515
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## BW Group

### Notes to Combined Financial Statements

CRFP's first term loan ("Term Loan 1") was established on March 31, 2017 and had an outstanding balance as of December 31, 2017 of \$3,143,202, including \$3,000,000 in principal and \$143,202 in accrued interest. This term loan bears interest at LIBOR plus an applicable margin based on the CRFP's debt leverage ratio or 7.50% as of December 31, 2017. Interest expense accrues monthly on the then outstanding balance of the Term Loan 1. The Term Loan 1 does not require scheduled principal payments through maturity of February 28, 2022. The loan is secured by a first lien on the real and personal property assets of CRFP. CRFP paid \$26,500 of loan origination costs in connection with the Term Loan 1. Loan origination costs of \$4,248 were amortized in the accompanying combined statements of operations for the year ended December 31, 2017. As of December 31, 2017, unamortized loan origination costs were \$22,252 and are shown as a reduction of the Term Loan 1 balance on the accompanying combined balance sheets.

3,120,950 -

CRFP's second term loan ("Term Loan 2") was established on December 1, 2017 and had an outstanding balance as of December 31, 2017 of \$6,508,879, including \$6,500,000 in principal and \$8,879 in accrued interest. This term loan bears interest at LIBOR plus an applicable margin based on the CRFP's debt leverage ratio or 7.50% as of December 31, 2017. Interest expense accrues monthly on the then outstanding balance of the Term Loan 2. The Term Loan 2 does not require scheduled principal payments through maturity of February 28, 2022. The loan is secured by a first lien on the real and personal property assets of CRFP. CRFP paid \$72,918 of loan origination costs in connection with the Term Loan 2. Loan origination costs of \$1,249 were amortized in the accompanying combined statements of operations for the year ended December 31, 2017. As of December 31, 2017, unamortized loan origination costs were \$71,669 and are shown as a reduction of the Term Loan 2 balance on the accompanying combined balance sheets.

6,437,210 -

On December 15, 2016, SLHC entered into a three year borrowing agreement totaling \$454,829 related to the purchase of equipment for its operations. The note bears interest at 3.99% and requires monthly principal and interest payments in the amount of \$13,426 through January 15, 2020 and is secured by the assets which were being financed.

309,215 454,829

Total long-term debt

58,050,737 45,363,468

Less: current portion of long-term debt of \$7,424,670 and \$7,629,120 as of December 31, 2017 and 2016, respectively, and offset relating to current portion of loan origination costs of \$560,578 and \$548,497, at December 31, 2017 and 2016, respectively.

6,864,092 7,080,623

Total long-term debt, less current maturities, and net of deferred loan costs

\$51,186,645 \$38,282,845

# BW Group

## Notes to Combined Financial Statements

The following table reflects the future minimum debt repayments for long-term debt as of December 31, 2017:

Year ending December 31,	Amount
2018	\$ 7,424,670
2019	4,857,688
2020	37,562,639
2021	-
2022	-
Thereafter	9,652,078
	\$ 59,497,075

### Note 12 – Subordinated Note Payable, Related Party

In accordance with an amendment from the term loan Agreement dated December 1, 2017, proceeds from the Subordinated Promissory Note, related party totaling \$2,169,292 were used to fund operating activities of CRFP. The Subordinated Note bears an annual interest rate of 12% compounded quarterly. Interest is due every three months and principal is due at maturity on February 1, 2022. The principal balance was \$2,169,292 as of December 31, 2017. Interest of \$22,416 was expensed for the year ended December 31, 2017 and is included in due to related parties on the accompanying combined balance sheets as of December 31, 2017.

### Note 13 – Capital Leases

Assets under capital leases are capitalized at the lower of the net present value of the total amount of lease payments under the leasing agreements or the fair market value of the leased assets. Capital lease assets are amortized on a straight-line basis, over a period consistent with the Company's normal policy for depreciating property and equipment. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation at an interest rate of 6%.

CRFP has entered into a capital lease for equipment, with initial principal cost of \$325,000 set to mature in May 2021. The capital lease obligation as of December 31, 2017 and 2016 of \$269,899 and \$0, comprised of \$91,592 and \$0 of current lease obligations included in accounts payable, accrued expenses, and other current liabilities and \$178,307 and \$0 of non-current lease obligations on the accompanying combined balance sheets, respectively.

The assets under capital lease have accumulated depreciation of \$24,375 and \$0 as of December 31, 2017 and 2016, respectively. Total depreciation expense was \$24,375 and \$0 for the years ended December 31, 2017 and 2016, respectively, which is included in cost of sales in the accompanying combined statements of operations.

# BW Group

## Notes to Combined Financial Statements

The following table reflects the future minimum payments required under this capital lease as of December 31:

<b>Year ending December 31,</b>	<b>Amount</b>
2018	\$ 91,592
2019	91,592
2020	91,592
2021	22,898
Capital lease as of December 31, 2017, including interest	297,674
Interest portion of future payments	(27,775)
Capital lease as of December 31, 2017, net of interest	<u>\$ 269,899</u>

### Note 14 – Commitments and Contingencies

The Company owns its primary facilities and land (buildings, land and fixtures in Cross City, FL and Glenwood, AR). The Company leases a warehouse in Adel, GA for rail car shipments. Rent expense is \$1,000 per month and was \$12,000 for the both years ended December 31, 2017 and 2016, included in the accompanying combined statements of operations.

#### Litigation

From time to time, the Company is involved in legal matters. Management believes that the ultimate outcome of such matters will not have a material adverse effect of the accompanying combined financial statements.

#### Environmental Liability

SLHC estimates that it has future environmental assessment, remediation, and monitoring costs relating to prior lumber treatment activities that were prone to site contamination. In 2013, SLHC engaged environmental consultants to help determine potential and likely future environmental expenses. With the assistance of a valuation expert, the fair value of the environmental liability on June 28, 2013 was estimated to be \$4,345,000 using the discounted cash flow valuation method, a form of the income approach. The Company's costs associated with environmental assessment, remediation, and monitoring totaled \$1,832,013 and \$223,987, for the years ended December 31, 2017 and 2016, respectively. The environmental liability balance was \$1,145,521 and \$2,977,534 as of December 31, 2017 and 2016, respectively.

### Note 15 – Related Party Transactions

**Expense allocations to SRM** – The Company incurs costs and expenses and shares these expenses with SRM. These shared expenses include costs for items such as fuel, health insurance, workers' compensation costs and various other items. These costs and expenses have been allocated by the Company on the basis of direct usage when identifiable; when not identifiable, these costs have been allocated on a pro-rata basis of sales, headcount, or other measures considered to be a reasonable reflection of the utilization.

# BW Group

## Notes to Combined Financial Statements

The Company believes the assumptions underlying the allocation of costs and expenses to SRM are reasonable. Nevertheless, the combined financial statements may include more or less of all the costs and expenses that would have been incurred had the Company operated as a standalone company during the periods presented and may not reflect our combined results of operations, financial position and cash flows had it operated as a standalone company during the periods presented.

**Timber sales** – STM sells a portion of its timber to SRM. During 2017 and 2016, the Company sold \$530,426 and \$858,559, respectively to SRM.

**Management Service Agreements** – The Company is party to management service agreements with Blue Wolf Capital Partners LLC (“BWCP”). Under the agreement, the BWCP shall provide advice and assistance to the Company’s executive management and board of managers as required by the Company from time to time. The Company recorded management fees (included in selling, general, and administrative expenses in the combined statements of operations) of \$1,000,000 related to management services under the agreement for the years ended December 31, 2017 and 2016. The Company also recorded other expenses of \$138,109 and \$115,435 related to BWCP’s operating expenses (included in selling, general, and administrative expenses in the combined statements of operations) for the years ended December 31, 2017 and 2016, respectively.

**The Mulch and Soil Company, LLC** – SLHC paid fees on behalf of TMSC related to its integration of SRMs personnel and operations. As of December 31, 2017 and 2016, TMSC owed the Company \$157,140 and \$0, respectively, which is included in due from related parties on the accompanying combined balance sheet.

**BW SLC Holdings, LLC** – The Company, along with affiliate entities under common control of Ultimate Parent, pays its estimated portion of certain technology fees to Ultimate Parent, with whom the related technology agreements is held. The Company recorded (included in selling, general, and administrative expenses in the Combined statements of operations) \$181,740 and \$0 of technology fees for the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Company owed \$181,740 and \$0 to Ultimate Parent for the related technology fees, which are included in due to related parties on the accompanying Combined balance sheet. CRFP was also advanced funds from Ultimate Parent for certain operating expenses. The amount owed to Ultimate Parent by the Company at December 31, 2017 was \$481,836 and is included in due to related parties on the accompanying combined balance sheet.

**Board compensation** - The Company has consulting agreements with its outside board members and recorded fees (included in selling, general and administrative expenses in the combined statement of operations) of \$126,000 and \$113,500 for the years ended December 31, 2017 and 2016, respectively.

### Note 16 – Employee Benefit Plan

The Company, through Ultimate Parent, has a 401(k) retirement plan (the “Plan”) that covers all employees who are at least 21 years old. Participants may contribute up to 20% of their compensation to the 401(k) portion of the Plan, not to exceed the maximum allowed by law. The Company makes a matching contribution of 100% of the first 6% of each employee contribution for eligible employees to the 401(k) plan. The matching contribution is fully vested upon participation. Company contributions charged to operations amounted to \$440,049 and \$370,842, for the years ended December 31, 2017 and 2016, respectively.

# BW Group

## Notes to Combined Financial Statements

### **Note 17 – Members' Equity**

CRFP has authorized two classes of Units: (i) Class A Common Units; and (ii) Class B Common Units, each having the rights and limitations set forth herein. SLHC and STM has authorized only Class A Common Units. Voting rights are limited to those holding Class A Common Units.

**Class A Common Units** – CRFP issued and granted 1,000 Class A Common Units on September 20, 2016. An additional 73 and 16 Class A Common Units were issued and granted on August 16, 2017 and December 1, 2017, respectively. Contributed capital of the Class A common units of CRFP was \$29,067,555 and \$14,106,428 at December 31, 2017 and 2016, respectively. SLHC issued and granted 1,000 Class A Common Units on May 21, 2015 and the contributed capital at December 31, 2017 and 2016 was \$12,006,862. STM issued and granted 1,000 Class A Common Units on December 18, 2013 and the contributed capital at December 31, 2017 and 2016 was \$6,633,496.

**Class B Common Units** - CRFP issued and granted 59 Class B Common Units on December 1, 2017 with 12 Units outstanding according to their individual time-based vesting requirements as of December 31, 2017 (see Note 18).

### **Note 18 – Profits Interest**

CRFP issued Profits Interest Units on December 1, 2017 to certain Management personnel in connection with their continued employment with the Company. The Profits Interest vest over a five-year period with the first vesting date being December 31, 2017 and entitle the holders to receive a distribution upon the occurrence of a qualifying transaction as defined. Share-based compensation expense is reported in selling, general, and administrative expenses when it is probable that a distribution will occur. There was no share-based compensation expense for the year ended December 31, 2017 since the Company had not determined that a qualifying event was probable of occurring.

**APPENDIX B**

**UNAUDITED COMBINED FINANCIAL STATEMENTS OF THE  
BW GROUP FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018**

(See attached.)

Combined Financial Statements and  
Independent Auditors' Review Report

**BW Group**

March 31, 2018  
(Unaudited)

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## INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Managers of  
Caddo River Forest Products, LLC, BW SLC Holdings, LLC, Suwannee Lumber Holding Company, LLC  
and Suwannee Timber Management, LLC

### Report on the Combined Financial Statements

We have reviewed the combined financial statements of Caddo River Forest Products, LLC and the carved-out portions of BW SLC Holdings, LLC, Suwannee Lumber Holding Company, LLC, and Suwannee Timber Management, LLC (collectively, referred to as "BW Group" or the "Company"), which comprise the combined balance sheet as of March 31, 2018, the related combined statements of operations and cash flows for the three-month periods ended March 31, 2018 and 2017, and the combined statements of members' equity (deficiency) for the three-month periods ended March 31, 2018 and 2017 and the nine-month period ended December 31, 2017.

### Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework.

### Auditor's Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, as promulgated by the Auditing Standards Board, the senior committee of the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

### Report on Combined Balance Sheet as of December 31, 2017

We have previously audited, in accordance with the auditing standards generally accepted in the United States of America, the combined balance sheet of BW Group as of December 31, 2017, and the related combined statements of operations, members' equity (deficiency), and cash flows for the year then ended (not presented herewith); and in our report dated, May 14, 2018, we expressed an unmodified audit opinion on those audited combined financial statements. In our opinion, the accompanying combined balance sheet of BW Group, as of December 31, 2017, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.



EISNERAMPER LLP  
Iselin, New Jersey  
May 19, 2018



# BW Group

## Combined Balance Sheets

(See Independent Auditors' Review Report and Notes to Combined Financial Statements)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 7,154,220	\$ 9,625,819
Restricted cash	-	107,982
Accounts receivable, net	6,270,594	4,906,278
Due from related parties	2,233,694	1,145,725
Inventories, net	13,392,299	13,945,032
Prepaid expenses and other current assets	1,504,524	1,281,987
Total current assets	30,555,331	31,012,823
Spare parts, net and other assets	2,717,753	2,517,055
Goodwill	1,030,026	1,030,026
Intangibles, net	1,256,569	1,314,717
Property, plant and equipment, net	53,203,440	51,277,717
Total assets	\$ 88,763,119	\$ 87,152,338
<b>Liabilities and Members' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable, accrued expenses, and other current liabilities	\$ 5,543,537	\$ 4,533,870
Due to related parties	656,043	558,746
Line of credit	2,753,281	2,215,391
Timber contract liabilities	2,687,716	4,137,716
Deferred income, current	80,000	-
Current maturities of long-term debt, net of unamortized deferred loan costs	6,747,602	6,864,092
Total current liabilities	18,468,179	18,309,815
Long-term debt, less current maturities, net of unamortized deferred loan costs	50,439,242	51,186,645
Environmental liability	1,094,422	1,145,521
Subordinated note payable, related party	2,169,292	2,169,292
Deferred income, net of current portion	300,000	-
Capital lease obligations, net of current portion	159,457	178,307
Total liabilities	72,630,592	72,989,580
<b>Commitments and contingencies (Note 13)</b>		
<b>Members' equity:</b>		
Total members' equity	16,132,527	14,162,758
Total liabilities and members' equity	\$ 88,763,119	\$ 87,152,338

# BW Group

## Combined Statements of Operations

(See Independent Auditors' Review Report and Notes to Combined Financial Statements)

	<b>Three Month Period Ended March 31, 2018</b>	<b>Three Month Period Ended March 31, 2017</b>
<b>Sales, net</b>	\$ 32,615,937	\$ 22,774,456
<b>Cost of sales</b>	26,731,711	17,789,538
Gross profit	5,884,226	4,984,918
<b>Operating expenses:</b>		
Selling, general, and administrative expenses	2,410,208	2,047,193
Depreciation and amortization	83,573	84,839
Total operating costs and expenses	2,493,781	2,132,032
Operating income	3,390,445	2,852,886
<b>Other (income) expense:</b>		
Interest expense	1,596,892	1,170,495
Loss on disposal of assets	-	35,693
Other income	(28,921)	(8,100)
Total other expense	1,567,971	1,198,088
<b>Net income</b>	<b>\$ 1,822,474</b>	<b>\$ 1,654,798</b>

# BW Group

## Combined Statements of Members' Equity (Deficiency)

(See Independent Auditors' Review Report and Notes to Combined Financial Statements)

**Period Ended March 31, 2018**

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	<b>Total Members'</b>
	<b>Equity (Deficiency)</b>
<b>Balance, January 1, 2017</b>	\$ (3,143,498)
Net increase in members' investment	6,134,684
Net income	1,654,798
<b>Balance, March 31, 2017</b>	<u>4,645,984</u>
Capital contributions	14,961,127
Net decrease in members' investment	(2,900,641)
Members' distributions	(2,622,337)
Net income	78,625
<b>Balance, December 31, 2017</b>	<u>14,162,758</u>
Net increase in members' investment	147,295
Net income	1,822,474
<b>Balance, March 31, 2018</b>	<u><u>\$ 16,132,527</u></u>

# BW Group

## Combined Statements of Cash Flows

(See Independent Auditors' Review Report and Notes to Combined Financial Statements)

	<b>Three Month Period Ended March 31, 2018</b>	<b>Three Month Period Ended March 31, 2017</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,822,474	\$ 1,654,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,574,351	765,616
Amortization of deferred loan costs	177,848	182,361
Loss on asset disposal	-	35,693
Non-cash interest expense	215,930	-
Changes in assets and liabilities:		
Accounts receivable	(1,364,316)	(950,276)
Due from related parties	(1,087,969)	2,373
Inventories	552,733	(1,754,191)
Prepaid expenses and other current assets	(217,545)	(362,748)
Spare parts and other assets	(241,935)	667,291
Accounts payable, accrued expenses, and other current liabilities	1,009,667	9,931
Due to related parties	97,297	13,624
Timber contract liabilities	(1,450,000)	-
Environmental liability	(51,099)	(1,560,913)
Deferred income	380,000	-
Net cash provided by (used in) operating activities	<u>1,417,436</u>	<u>(1,296,441)</u>
<b>Cash flows from investing activities:</b>		
Restricted cash	107,982	1,687,590
Investment in property, plant and equipment	(3,441,927)	(6,826,980)
Net cash used in investing activities	<u>(3,333,945)</u>	<u>(5,139,390)</u>
<b>Cash flows from financing activities:</b>		
Payment of financing costs	(1,180)	-
Payment of capital lease obligation	(18,850)	-
Repayment of debt	(2,141,975)	(1,533,438)
Net increase in members' investment	147,295	6,134,684
Proceeds from line of credit	1,459,620	1,691,670
Proceeds from issuance of debt	-	3,000,000
Net cash (used in) provided by financing activities	<u>(555,090)</u>	<u>9,292,916</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,471,599)</b>	<b>2,857,085</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>9,625,819</b>	<b>1,919,318</b>
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 7,154,220</u></b>	<b><u>\$ 4,776,403</u></b>
<b>Supplement disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 1,180,698</u>	<u>\$ 1,097,154</u>

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

### Note 1 – Description of Business, Basis of Presentation and Principles of Combination

#### Description of Business

The accompanying combined carve-out financials statements include Caddo River Forest Products, LLC (“CRFP”), BW SLC Holdings, LLC Carve-Out (“Parent” or “BWSLC”), Suwannee Lumber Holding Company, LLC Carve-Out (“SLHC”), and Suwannee Timber Management, LLC Carve-Out (“STM”) (collectively, referred to as “BW Group” or the “Company”). The financial statements being combined are related through common ownership and management. BW SLC Holdings, LLC (“Ultimate Parent”) is the sole member of Suwannee Lumber Holding Company, LLC and Suwannee Timber Management, LLC, and the majority member (65%) of Caddo River Forest Products, LLC. BW Group is engaged in the lumber business, including lumber manufacturing, distribution and timber dealership. The BW Group’s products are sold through direct sales employees to lumber treaters, distributors, wholesalers, and retailers, as well as other industrial consumers including remanufacturers, pulp and paper mills, and bioenergy plants. The Company’s products are primarily for domestic consumption and marketed throughout the Southeast United States.

A summary of the combination of BW Group is as follows:

- All of the accounts of CRFP will be included in BW Group. CRFP was established as a limited liability company in the State of Delaware on July 28, 2016 and includes its two wholly-owned subsidiaries, Caddo River, LLC (“CRL”) and Caddo River Contracting, LLC (“CRC”). CRFP was established to acquire all of the personal and real property assets of CRL and CRC and includes its sawmill operations in Glenwood, Arkansas;
- BWSLC is including an environmental insurance policy that benefits the lumber operations of BW Group. BW SLC Holdings, LLC is owned by BW SLC AIV III, L.P. (the “Principal Member”) (86%), a wholly-owned subsidiary of Blue Wolf Fund III Investors, and BW SLC Investment Holdings, LLC (“Investment Holdings”) (12%) with the balance (2%) held by outside members (together with Investment Holdings and the Principal Member, the “Owners”);
- SLHC is including all of its operations as well as those of its two direct subsidiaries, Suwannee Lumber Company, LLC (“SLC”) and BW SLC Real Estate Holdings, LLC (“SRE”). Suwannee River Mulch, LLC (“SRM”), another subsidiary of Suwannee Lumber Holding Company, LLC, is not included in BW Group as the mulch operations are not included in the proposed transaction that is discussed in the subsequent events footnote. Suwannee Lumber Holding Company, LLC was established as a limited liability company in the State of Delaware on May 21, 2015 and SLC and SRE were established on June 28, 2013; and
- All accounts of STM are being included in BW Group, with the exception of certain land holdings and the related debt and expenses. Suwannee Timber Management, LLC was established as a limited liability company in the State of Delaware on December 18, 2013. Its operations primarily involve buying timber deeds, coordinating harvests with contracted loggers and haulers, and selling delivered timber to regional forest products companies including sawmills, pulp and paper mills, mulch mills, bioenergy plants, and other industrial fiber consumers.

BW Group is a carved-out portion of BW SLC Holding, LLC’s historical lumber business that is being combined for a potential transaction that is discussed in the subsequent events disclosure.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

BW Group utilizes BW SLC Holding, LLC's centralized processes and systems for cash management, payroll, purchasing and distribution. The allocation of inventory, accounts receivable, accounts payable, sales and cost of sales was done on a specific identification basis whereby management evaluated 1) inventory on a product by product basis and 2) accounts receivable, accounts payable, sales and cost of sales on an invoice by invoice basis. Revenue and related pricing allowances and discounts were allocated on an invoice by invoice basis. For prepaid expenses, fixed assets, intangible assets and accrued liabilities, the Company utilized various allocation methodologies including specific identification of costs and proportionate revenue. The BW Group carve-out is based on a number of assumptions and there are multiple methodologies and approaches that could have been adopted. Management considers the allocations to be reasonable and the allocation methodologies have been consistently applied. The financial information included herein may not necessarily reflect the financial position, results of operations, changes in members' equity and cash flows of BW Group in the future or what they would have been had BW Group been a separate, stand-alone entity during the periods being presented.

### **Basis of Presentation**

The accompanying combined financial statements of BW Group are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. The financial statements of BW Group have been prepared on a carve-out basis and represent the combined lumber business of BWSLC, SLHC, STM and CRFP and is not a stand-alone entity. Allocation methodologies discussed above with respect to BW Group have been consistently applied.

The combined financial statements representing the historical operations of BW SLC Holding, LLC's lumber businesses have been derived from the historical accounting records of BW SLC Holdings, LLC, Suwannee Lumber Holding Company, LLC, Suwannee Timber Management, LLC and Caddo River Forest Products, LLC and are presented on a carve-out basis. The combined financial statements reflect the assets, liabilities, revenues and expenses directly attributable to the BW Group, as well as allocations deemed reasonable by management, to present the financial position, results of operations, changes in members' equity and cash flows of BW Group on a stand-alone basis in the combination. These combined financial statements have been prepared to facilitate the sale of BW Group which reflect only the assets, liabilities, and operations that will be included in the sale. The assets and liabilities not included in the sale are reflected in the combined statements of members' equity (deficiency) as net increase in members' investment.

### **Principles of Combination**

The accompanying combined financial statements include the historical accounts of the BW Group which is the business that is contemplated by the transaction disclosed in the subsequent event footnote. All significant intercompany balances and transactions have been eliminated upon combination.

## **Note 2 – Summary of Significant Accounting Policies**

### **Use of Estimates**

The preparation of combined financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting periods. Areas involving significant judgment include the BW Group carve-

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

out methodology, the accounts receivable allowances, the cost of standing timber inventory which is based on the purchase price in relation to the estimated volume of timber recoverable, inventory reserve, the economic lives of fixed assets and intangible assets, and the environmental liability. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Company considers all short-term, highly liquid investments with a maturity at the date of purchase of three months or less to be cash equivalents.

### **Restricted Cash and Letter of Credit**

As of December 31, 2017, the Company was over-funded on its PNC Bank revolving line of credit resulting in excess cash on hand totaling \$107,982. These funds are restricted pursuant to the terms of the related credit agreement (see Note 9). As of March 31, 2018 and December 31, 2017, the Company had one outstanding letter of credit totaling \$39,000. Pursuant to its workers' compensation insurance and as required by the Florida Department of Financial Services' Division of Workers' Compensation, the letter of credit secures potential future obligations of workers' compensation claims and is reviewed annually for renewal.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable in the accompanying combined balance sheets is reported net of the estimated allowance for doubtful accounts. To provide for accounts receivable that could become uncollectable in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The Company periodically evaluates receivables for collectability on an individual account basis and records an allowance for any amounts estimated to be uncollectible. When preparing these estimates, the Company considers a number of factors, including aging of the customers' accounts, past transactions with the customers, historical trends, and other information. The Company has not incurred bad debt expense for the quarters ended March 31, 2018 and 2017. The allowance for doubtful accounts was \$11,033 and \$10,000 as of March 31, 2018 and December 31, 2017, respectively.

### **Inventories**

Lumber inventories are stated at the lower of cost or net realizable value, using an average costing method. Inventory costs include direct and indirect production costs and manufacturing overhead. Standing timber inventories include timber purchased through timber deeds and are stated at cost less accumulated depletion for timber previously harvested. Standing timber inventory is reduced by actual timber harvested (depletion) using a depletion rate determined by the purchase price in relation to the estimated volume of timber recoverable. Timber deeds, also called timber rights, allow the Company to harvest timber on timberlands it does not own over a specified period of time (typically less than 2 years). While forests are subject to a number of natural hazards including fire, hurricanes, insects, and disease, the Company believes its risk of loss is minimized by the geographic diversity of its standing timber, insect and disease mitigation resources, and relatively short harvest periods. Standing timber inventories are reviewed for impairment whenever triggering events, such as the presence of natural hazards, or changes in circumstances, such as market conditions, indicate that the carrying value of those assets may not be recoverable. The Company does not maintain insurance against loss of standing timber or harvested timber in transit. As of March 31, 2018 and December 31, 2017, there was no allowance for inventory obsolescence.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

### **Property, Plant and Equipment**

As part of the business combination accounting and in accordance with ASC 805 – Business Combinations and ASC 360 – Property, Plant and Equipment, the property, plant and equipment acquired on June 28, 2013 and September 20, 2016 by SLC and CRFP, respectively, was recorded at fair value based on valuations by professional third-party appraisers that the Company engaged to assist in determining fair value. All other purchases of property, plant and equipment are initially recorded at the cost required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Depreciation of property, plant and equipment is based on the estimated useful lives of the assets, generally 5 to 39 years, and is calculated using the straight-line method. Depreciation expense for the quarters ended March 31, 2018 and 2017 was \$1,516,203 and \$707,468, respectively, which is included in cost of sales and depreciation and amortization on the combined financial statements. The cost of day-to-day servicing on property, plant and equipment is expensed when incurred. Property, plant and equipment in the accompanying combined balance sheets is stated at cost less accumulated depreciation.

### **Timber Deposits**

Timber deposits represent non-interest bearing deposits held in escrow to secure against unmitigated damages to the landowner's real property during timber harvesting. Once the harvesting obligations are completed to the satisfaction of both parties, the funds are returned to the Company. Timber deposits were \$401,300 and \$372,300 as of March 31, 2018 and December 31, 2017, respectively, and are included in Spare parts, net and other assets on the accompanying combined balance sheets.

### **Goodwill and Intangible Assets**

The Company records the excess purchase price of identified tangible and intangible assets acquired over their estimated fair value as goodwill. The Company's goodwill arose from SLC's acquisition of Suwannee Lumber Manufacturing Co. and Subsidiaries on June 28, 2013 and is evaluated for impairment annually or more frequently if impairment indicators exist. The evaluation requires a comparison of the estimated fair value of the Company to the sum of the carrying value of the assets and liabilities. If the sum of the carrying value of the assets and liabilities exceeds the fair value, the carrying value of the goodwill is reduced to its implied estimated fair value through an adjustment to the goodwill balance, resulting in an impairment charge. For the quarters ended March 31, 2018 and 2017, no impairment of goodwill was recorded.

Identified intangible assets acquired from Suwannee Lumber Manufacturing Co. and Subsidiaries on June 28, 2013 were recorded at fair value based on valuations by professional third-party appraisers, that the Company engaged to assist in determining the fair value, in connection with the purchase accounting of those transactions. All other purchases of identified intangible assets are initially recorded at cost. The Company evaluates for impairment annually or more frequently if events or circumstances indicate that carrying amounts may not be recoverable by estimating the future cash flow from the associated asset group in accordance with ASC 350 (see Note 6). For identified intangible assets with definite useful lives, the Company amortizes the cost over the estimated useful lives using the straight-line method. For intangible assets with indefinite or indeterminate useful lives, the Company does not amortize the cost and assesses annually whether events or circumstances continue to support an indefinite useful life. If an intangible asset with an indefinite useful life is subsequently determined to have a finite useful life, the asset is then tested for impairment and amortized prospectively over its estimated remaining useful life. No impairment resulted for identified intangible assets in the quarters ended March 31, 2018 and 2017, respectively.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

### **Impairment of Long-Lived Assets including Intangible Assets Subject to Amortization**

Long-lived assets are reviewed for impairment whenever triggering events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment charge on long-lived assets recorded for the quarters ended March 31, 2018 and 2017.

### **Deferred Loan Costs**

Amounts paid or payable to lenders in connection with the establishment of the Company's existing credit facilities are deducted from the carrying value of the related financing liability and amortized as a component of interest expense over the life of the facility using the effective interest method. The amortization of deferred loan costs recognized for the quarters ended March 31, 2018 and 2017 include the amortization of costs to establish STM's revolving credit facilities and timber notes related to timber holdings; the amortization of costs to establish SLC's first-lien term loans, revolving credit facility, associated second-lien term facilities, and incremental borrowing; and the amortization of costs to establish CRFP's term loans and incremental borrowing (see Note 10). As of March 31, 2018 and December 31, 2017, deferred loan costs were included in other assets and current and long-term debt totaling \$3,354,923 and \$3,353,743, respectively, less accumulated amortization of \$1,835,010 and \$1,657,163, respectively. Amortization expense for deferred loan costs was \$177,848 and \$157,691 for the quarters ended March 31, 2018 and 2017, respectively.

### **Fair Value of Financial Instruments**

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurement and Disclosures provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable market based inputs or observable inputs that are corroborated by market data.

Level 3 – Unobservable inputs reflecting the reporting entity's own assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Short-

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

term financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other liabilities, and consist primarily of instruments without extended maturities, for which the fair value, based on management's estimates, approximates their carrying values. Borrowings on the Company's credit facilities and term loans bear interest at what is estimated to be current market rates of interest. Accordingly, fair values approximate carrying values for these instruments.

### **Revenue Recognition**

The Company's revenue consists primarily of sales of finished lumber, lumber by-products, and timber, net of discounts. Revenue includes delivery charges to customers. The sale of these products is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the agreed upon monies. The Company offers certain cash discounts in an effort to accelerate collection of sales. Sales discounts and adjustments of \$195,308 and \$144,117 were recognized during the quarters ended March 31, 2018 and 2017, respectively, as a reduction to sales on the combined statements of operations.

### **Shipping and Handling**

The Company considers its shipping and handling activities a service related to sales and accordingly classifies related expenses as cost of sales.

### **Advertising Costs**

Advertising costs are expensed as incurred and totaled \$51,677 and \$84,848 for the quarters ended March 31, 2018 and 2017, respectively.

### **Income Taxes**

BWSLC, CRFP, SLHC, and STM are limited liability companies taxed as partnerships. As such, items of income and expense are passed directly through to their respective members for federal income tax purposes. Therefore, no income tax provision is recorded by the Company. The Company accounts for uncertain tax positions as required by the guidance in ASC 740, Income Taxes. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. As of March 31, 2018 and December 31, 2017, the Company did not recognize any asset or liability as uncertain tax positions.

### **Concentration of Credit Risk and Significant Customers**

For the quarter ended March 31, 2018, two customers accounted for approximately 23% and 16% of revenue, respectively, for a total of 39%. As of March 31, 2018, these same customers accounted for approximately 21% and 17%, respectively, of accounts receivable for a total of 38%.

For the quarter ended March 31, 2017, two customers accounted for approximately 26% and 17% of revenue, respectively, for a total of 43%. As of March 31, 2017, these same customers accounted for approximately 30% and 20%, respectively, of accounts receivable for a total of 50%.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable, but instead performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts.

The Company maintains cash and cash equivalents at multiple financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Company regularly maintains balances in these accounts of amounts in excess of the insured limits and has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk related to these accounts or of its cash and cash equivalents generally.

### **Equity-Based Compensation**

Profits Interest are non-voting economic interests in the Company in the form of Class B Common Units. The fair value of these profits interests is recognized in the period a qualifying event, as defined, is deemed probable of occurring (see Note 17).

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange for those goods or services. The standard will be effective for annual reporting periods beginning after December 15, 2018. Early adoption was permitted for annual periods ending as early as December 15, 2017. The new standard permits the use of either the retrospective or cumulative effect transition method on adoption. The Company is currently evaluating the effect that this update will have on its combined financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330). Topic 330 previously required the Company to measure inventory at the lower of cost or market. Market could have been replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments in this update required the Company to measure inventory at the lower of cost and net realizable value. The Company adopted this ASU in 2017. The inventory balance at March 31, 2018 and 2017 was not affected by this update.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the combined balance sheets for substantially all lease arrangements. The guidance is required to be adopted in the fiscal years beginning after December 15, 2019, with early adoption permitted. Management is evaluating the impact this ASU will have on the Company's combined financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 7230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, including those related to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance,

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

and distributions received from equity method investees. This guidance is effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The guidance must be adopted on a retrospective basis and must be applied to all periods presented, but may be applied prospectively if retrospective application would be impracticable. Management is evaluating the impact this ASU will have on the Company's combined financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): "Restricted Cash (a consensus of the FASB Emerging Issues Task Force)". The update addresses the diversity in the industry with respect to classification and presentation of changes in restricted cash on the statements of cash flows. These amendments require that a statement of cash flows explain the restricted cash change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this update are effective for fiscal years beginning after December 15, 2018. The Company does not expect this to have a significant impact on the financial statements.

In January 2017, the FASB issued ASU No. 2017-01: Business Combinations (Topic 805) to clarify the definition of a business. The new standard is effective for fiscal years beginning after December 15, 2018 and may be adopted early. Management is evaluating the impact this ASU will have on the Company's combined financial statements.

### Subsequent Events

The Company evaluated all events and or transactions that occurred after March 31, 2018 through May 19, 2018, the date the combined financial statements were available to be issued and is not aware of any subsequent events that would require specific recognition or disclosure in the combined financial statements, except as noted below.

**Sale of BW Group** – On May 15, 2018, the Principal Member announced an agreement to sell the BW Group. Consummation of the transaction is subject to completion of due diligence by the potential purchaser and other customary closing procedures. There is no assurance that this transaction will be completed.

### Note 3 - Accounts Receivable, Net

Accounts receivable, net are comprised of the following:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Accounts receivable - lumber	\$ 5,792,643	\$ 4,410,066
Accounts receivable - timber	488,984	506,212
Allowance for uncollectable accounts receivables	(11,033)	(10,000)
Account receivable, net	<u>\$ 6,270,594</u>	<u>\$ 4,906,278</u>

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

### Note 4 – Note Receivable – Related Party

On January 17, 2017, Forestry Resources, LLC (“FRI”), a company currently under common control of BW SLC Holdings, LLC, entered into an agreement with a third party for the exclusive right and duty to harvest, remove and purchase specific timber prior to December 31, 2017. On December 20, 2017, the Company, FRI and the third party entered into an amendment to the original agreement extending the term until October 31, 2018. The terms of the amended agreement required an upfront prepayment of approximately \$987,000 which was advanced by the Company. As the timber is harvested and used in the operations of FRI, FRI will remit funds to the Company to repay the advance under the same terms as the original contract. The balance on the non-interest bearing note receivable as of March 31, 2018 and December 31, 2017 was \$545,180 and \$974,745, respectively, and is included in due from related parties on the accompanying combined balance sheets.

### Note 5 – Inventory, Net

Inventory was comprised of the following:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Raw materials	\$ 952,129	\$ 1,137,960
Work in-process	1,804,331	1,739,104
Finished goods	2,824,173	2,697,924
Standing timber	7,811,666	8,370,044
	<u>\$ 13,392,299</u>	<u>\$ 13,945,032</u>

### Note 6 – Goodwill and Intangible Assets, Net

The Company’s goodwill balance of \$1,030,026 was unchanged during the periods ended March 31, 2018 and December 31, 2017. Intangible assets comprised the following:

	Estimated Amortization Period (In years)	Gross Carrying Amount	March 31, 2018		December 31, 2017	
			Accumulated Amortization	Net Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	10	\$ 1,618,783	\$ 744,249	\$ 874,534	\$ 703,780	\$ 915,003
Trade names	10	707,157	325,122	\$ 382,035	307,443	\$ 399,714
		<u>\$ 2,325,940</u>	<u>\$ 1,069,371</u>	<u>\$ 1,256,569</u>	<u>\$ 1,011,223</u>	<u>\$ 1,314,717</u>

Based on the straight-line method, amortization expense was \$58,148 for the quarters ending March 31, 2018 and 2017, respectively. The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of March 31, 2018 is as follows:

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

	2018	2019	2020	2021	2022	Thereafter
Customer relationships	\$ 121,409	\$ 161,878	\$ 161,878	\$ 161,878	\$ 161,878	\$ 105,613
Trade names	52,947	70,716	70,716	70,716	70,716	\$ 46,224
Total	\$ 174,356	\$ 232,594	\$ 232,594	\$ 232,594	\$ 232,594	\$ 151,837

### Note 7 – Property, Plant and Equipment, Net

Property, plant and equipment, net, comprised the following:

	Estimated Useful Life (In years)	March 31, 2018	December 31, 2017
Land	N/A	\$ 1,278,419	\$ 1,278,419
Construction-in-progress	N/A	4,208,964	857,101
Equipment, trucks and trailers	5-10	53,126,277	53,036,214
Buildings and fixtures	7-39	7,815,232	7,815,232
		66,428,892	62,986,966
Accumulated depreciation		(13,225,452)	(11,709,249)
		\$ 53,203,440	\$ 51,277,717

For the quarters ended March 31, 2018 and 2017, depreciation expense was \$1,516,203 and \$707,468, respectively.

### Note 8 – Accounts Payable, Accrued Expenses, and Other Current Liabilities

Accounts payable, accrued expenses, and other current liabilities consisted of the following:

	March 31, 2018	December 31, 2017
Accounts payable	\$ 3,029,421	\$ 2,063,978
Outstanding check liability	1,018,810	1,007,525
Employee related payables	504,098	1,055,048
Other payables	879,571	293,648
Capital lease obligations	111,637	113,671
	\$ 5,543,537	\$ 4,533,870

### Note 9 – Lines of Credit

As of March 31, 2018 and December 31, 2017, SLHC's PNC Bank Revolving LOC was drawn \$883,848 and \$0, respectively. This PNC Bank Revolving LOC bears interest at PNC's base commercial lending rate plus 1.0% yielding interest rates of 5.75% and 5.00% as of March 31, 2018 and December 31, 2017, respectively. Interest payments are due on a monthly basis. This PNC Bank Revolving LOC has a maturity

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

date of May 21, 2020. The Company paid \$1,354,534 of loan origination costs in connection with this PNC Bank Revolving LOC and the PNC Bank Term Loan A, of which \$501,679 was in connection with this PNC Bank Revolving LOC. Loan origination costs of \$25,084 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$217,230 and \$242,314, respectively, and are shown in other assets on the accompanying combined balance sheets.

On December 1, 2017, STM renewed its \$5,000,000 revolving line of credit with Farm Credit of Florida to fund certain operating activities. Specifically, the facility is limited to purchase lump-sum timber deeds and matures on September 1, 2018. The Farm Credit LOC bears interest at LIBOR plus 3.5% and is collateralized by the assets being financed. The Farm Credit LOC interest rate as of March 31, 2018 and December 31, 2017 was 4.875%, with balances of \$1,869,433 and \$2,215,391, respectively. The Company paid \$35,910 of loan origination costs in connection with this Farm Credit LOC. For the quarters ended March 31, 2018 and 2017, \$2,936 and \$2,296, respectively, of these loan origination costs have been amortized through interest expense. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$4,992 and \$7,928 and are shown in prepaid expenses and other current assets on the accompanying combined balance sheets. The line of credit is guaranteed by BW SLC Holdings, LLC.

### Note 10 – Long-Term Debt

A summary of the term-loans payable is as follows:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
SLHC's first PNC Bank term loan ("PNC Term Loan A") had an outstanding principal balance as of March 31, 2018 and December 31, 2017 of \$6,745,419 and \$7,420,419, respectively. This term loan bears interest at PNC's base commercial lending rate plus 2.50% or 7.25% and 6.75% as of March 31, 2018 and December 31, 2017, respectively. Interest payments are due on a monthly basis and quarterly principal payments in the amount of \$675,000 are required through March 1, 2020 with the remaining principal balance due May 21, 2020. The loan is secured by a first lien on the real and personal property assets and posted working capital collateral of the SLHC. SLHC paid \$1,354,534 of loan origination costs in connection with the PNC Term Loan A and the PNC Bank Revolving LOC, of which, \$852,855 was in connection with the PNC Term Loan A. Loan origination costs of \$42,643 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$369,291 and \$411,934, respectively, and are shown as a reduction of the PNC Term Loan A balance on the accompanying combined balance sheets.	\$6,376,128	\$7,008,485

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

SLHC's second PNC Bank term loan ("PNC Term Loan B") was established on April 6, 2017 and had an outstanding principal balance as of March 31, 2018 and December 31, 2017 of \$9,500,000 and \$10,000,000, respectively. This term loan bears interest at LIBOR plus 2.50% or 7.25% and 6.75% as of March 31, 2018 and December 31, 2017, respectively. Interest payments are due on a monthly basis and quarterly principal payments in the amount of \$500,000 are required through March 1, 2020 with the remaining principal balance due May 21, 2020. The loan is secured by a first lien on the real and personal property assets and posted working capital collateral of SLHC. SLHC paid \$157,470 of loan origination costs in connection with the PNC Term Loan B. Loan origination costs of \$13,286 and \$0 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$115,445 and \$128,731, respectively, and are shown as a reduction of the PNC Term Loan B balance on the accompanying combined balance sheets.

9,384,555	9,871,269
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SLHC's SJC Direct Lending Fund Term Loan A ("SJC DLF A") had an outstanding principal balance as of March 31, 2018 and December 31, 2017 of \$28,345,738. This SJC DLF A bears interest at LIBOR plus an applicable margin based on the SLHC's debt leverage ratio or 9.50% as of March 31, 2018 and December 31, 2017. Interest payments are due on a monthly basis. The SJC DLF A does not require scheduled principal payments through maturity of March 1, 2020. The loan is secured by a second lien on the real and personal property assets and posted working capital collateral of SLHC. SLHC paid \$1,680,626 of loan origination costs in connection with the SJC DLF A and the SJC DLF B loans, of which, \$1,479,954 has been allocated to this SJC DLF A based on the relative percentage of the total SJC DLF facilities. Loan origination costs of \$73,997 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$640,829 and \$714,826, respectively, and are shown as a reduction of the SJC DLF A balance on the accompanying combined balance sheets.

27,704,909	27,630,912
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## BW Group

### Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

SLHC's SJC Direct Lending Fund Term Loan B ("SJC DLF B") had an outstanding principal balance as of March 31, 2018 and December 31, 2017 of \$3,401,971. This SJC DLF B bears interest at LIBOR plus an applicable margin based on the SLHC's debt leverage ratio or 9.50% as of March 31, 2018 and December 31, 2017. Interest payments are due on a monthly basis. The SJC DLF B does not require scheduled principal payments through maturity of March 1, 2020. The loan is secured by a second lien on the real and personal property assets and posted working capital collateral of SLHC. SLHC paid \$1,680,626 of loan origination costs in connection with the SJC DLF A and the SJC DLF B loans, of which, \$200,672 has been allocated to this SJC DLF B based on the relative percentage of the total SJC DLF facilities. Loan origination costs of \$10,034 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$86,892 and \$96,926, respectively, and are shown as a reduction of the SJC DLF B balance on the accompanying combined balance sheets.

3,315,079	3,305,045
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STM's Farm Credit timber note had an outstanding principal balance of \$351,497 and \$367,651 as of March 31, 2018 and December 31, 2017, respectively. This note bears interest at LIBOR plus 3.63% yielding an interest rate of 5.50% and 5.00% as of March 31, 2018 and December 31, 2017, respectively. Interest payments are due on a monthly basis. The note requires monthly principal payments as the related timber inventory is harvested and sold. The first amendment to this note was effective as of November 21, 2017, extending the maturity date to July 1, 2018. The note is secured by a first lien on the related timber inventory and a second lien on the related land of STM, which is being carved out as it is not part of the BW Group. STM paid \$25,785 of loan origination costs in connection with the note. Loan origination costs of \$0 and \$12,615 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, the loan origination costs were fully amortized.

351,497	367,651
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# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

CRFP's first term loan ("Term Loan 1") was established on March 31, 2017 and had an outstanding balance as of March 31, 2018 and December 31, 2017 of \$3,215,151 and \$3,143,202, respectively, including \$3,000,000 in principal and \$215,151 and \$143,202, respectively, in accrued interest. This term loan bears interest at LIBOR plus an applicable margin based on the CRFP's debt leverage ratio or 7.50% as of March 31, 2018 and December 31, 2017. Interest expense accrues monthly on the then outstanding balance of the Term Loan 1. The Term Loan 1 does not require scheduled principal payments through maturity of February 28, 2022. The loan is secured by a first lien on the real and personal property assets of CRFP. CRFP paid \$26,500 of loan origination costs in connection with the Term Loan 1. Loan origination costs of \$2,052 and \$0 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$20,200 and \$22,252, respectively, and are shown as a reduction of the Term Loan 1 balance on the accompanying combined balance sheets.

3,194,951	3,120,950
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CRFP's second term loan ("Term Loan 2") was established on December 1, 2017 and had an outstanding balance as of March 31, 2018 and December 31, 2017 of \$6,652,861 and \$6,508,879, respectively, including \$6,500,000 in principal and \$152,861 and \$8,879, respectively, in accrued interest. This term loan bears interest at LIBOR plus an applicable margin based on the CRFP's debt leverage ratio or 7.50% as of March 31, 2018 and December 31, 2017. Interest expense accrues monthly on the then outstanding balance of the Term Loan 2. The Term Loan 2 does not require scheduled principal payments through maturity of February 28, 2022. The loan is secured by a first lien on the real and personal property assets of CRFP. CRFP paid \$74,098 of loan origination costs in connection with the Term Loan 2. Loan origination costs of \$7,816 and \$0 were amortized in the accompanying combined statements of operations for the quarters ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, unamortized loan origination costs were \$65,034 and \$71,669, respectively, and are shown as a reduction of the Term Loan 2 balance on the accompanying combined balance sheets.

6,587,827	6,437,210
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On December 15, 2016, SLHC entered into a three year borrowing agreement totaling \$454,829 related to the purchase of equipment for its operations. The note bears interest at 3.99% and requires monthly principal and interest payments in the amount of \$13,426 through January 15, 2020 and is secured by the assets which were being financed.

271,898	309,215
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Total long-term debt

57,186,844	58,050,737
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# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

Less: current portion of long-term debt of \$7,308,180 and \$7,424,670 as of March 31, 2018 and December 31, 2017, respectively, and offset relating to current portion of loan origination costs of \$560,578 at March 31, 2018 and December 31, 2017.

	6,747,602	6,864,092
Total long-term debt, less current maturities, and net of deferred loan costs	<u>\$50,439,242</u>	<u>\$51,186,645</u>

The following table reflects the future minimum debt repayments for long-term debt as of March 31, 2018:

<u>Year ending December 31,</u>	<u>Amount</u>
2018	\$ 6,196,197
2019	4,857,688
2020	37,562,638
2021	-
2022	-
Thereafter	9,868,012
	<u>\$ 58,484,535</u>

### Note 11 – Subordinated Note Payable, Related Party

In accordance with an amendment from the term loan Agreement dated December 1, 2017, proceeds from the Subordinated Promissory Note, related party totaling \$2,169,292 were used to fund operating activities of CRFP. The Subordinated Note bears an annual interest rate of 12% compounded quarterly. Interest is due every three months and the principal is due at maturity on February 1, 2022. The principal balance was \$2,169,292 as of March 31, 2018 and December 31, 2017. Interest of \$65,078 and \$0 was expensed for the quarters ended March 31, 2018 and 2017, respectively. As of March 31, 2018, \$22,416 of interest expense was accrued and is included in due to related parties on the accompanying combined balance sheets.

### Note 12 – Capital Leases

Assets under capital leases are capitalized at the lower of the net present value of the total amount of lease payments under the leasing agreements or the fair market value of the leased assets. Capital lease assets are amortized on a straight-line basis, over a period consistent with the Company's normal policy for depreciating property and equipment. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation at an interest rate of 6%.

In April 2017, CRFP entered into a capital lease for equipment, with an initial principal cost of \$325,000 set to mature in May 2021. The capital lease obligation as of March 31, 2018 and December 31, 2017 of \$251,049 and \$269,899, respectively, comprised of \$91,592 of current lease obligations included in accounts payable, accrued expenses, and other current liabilities and \$159,457 and \$178,307, respectively, of non-current lease obligations on the accompanying combined balance sheets.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

The assets under capital lease have accumulated depreciation of \$32,500 and \$24,375 as of March 31, 2018 and December 31, 2017, respectively. Total depreciation expense was \$8,125 and \$0 for the quarters ended March 31, 2018 and 2017, respectively, which is included in cost of sales in the accompanying combined statements of operations.

The following table reflects the future minimum payments required under this capital lease as of December 31:

	<b>Amount</b>
2018	\$ 68,694
2019	91,592
2020	91,592
2021	22,898
Capital lease as of March 31, 2018, including interest	274,776
Interest portion of future payments	(23,727)
Capital lease as of March 31, 2018, net of interest	<u>\$ 251,049</u>

### **Note 13 – Commitments and Contingencies**

The Company owns its primary facilities and land (buildings, land and fixtures in Cross City, FL and Glenwood, AR). The Company leases a warehouse in Adel, GA for rail car shipments. Rent expense is \$1,000 per month and was \$3,000 for the quarters ended March 31, 2018 and 2017, included in the accompanying combined statements of operations.

#### **Litigation**

From time to time, the Company is involved in legal matters. Management believes that the ultimate outcome of such matters will not have a material adverse effect of the accompanying combined financial statements.

#### **Environmental Liability**

SLHC estimates that it has future environmental assessment, remediation, and monitoring costs relating to prior lumber treatment activities that were prone to site contamination. In 2013, SLHC engaged environmental consultants to help determine potential and likely future environmental expenses. With the assistance of a valuation expert, the fair value of the environmental liability on June 28, 2013 was estimated to be \$4,345,000 using the discounted cash flow valuation method, a form of the income approach. The Company's costs associated with environmental assessment, remediation, and monitoring totaled \$51,099 and \$950,378 for the quarters ended March 31, 2018 and 2017, respectively. The environmental liability balance was \$1,094,422 and \$1,145,521 as of March 31, 2018 and December 31, 2017, respectively.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

### Note 14 – Related Party Transactions

**Expense allocations to SRM** – The Company incurs costs and expenses and shares these expenses with SRM. These shared expenses include costs for items such as fuel, health insurance, workers' compensation costs and various other items. These costs and expenses have been allocated by the Company on the basis of direct usage when identifiable; when not identifiable, these costs have been allocated on a pro-rata basis of sales, headcount, or other measures considered to be a reasonable reflection of the utilization.

The Company believes the assumptions underlying the allocation of costs and expenses to SRM are reasonable. Nevertheless, the combined financial statements may include more or less of all the costs and expenses that would have been incurred had the Company operated as a standalone company during the periods presented and may not reflect our combined results of operations, financial position and cash flows had it operated as a standalone company during the periods presented.

**Timber sales** – STM sells a portion of its timber to SRM. During the quarters ended March 31, 2018 and 2017, the Company sold \$275,378 and \$143,496, respectively, to SRM.

**Management Service Agreements** – The Company is party to management service agreements with Blue Wolf Capital Partners LLC (“BWCP”). Under the agreement, the BWCP shall provide advice and assistance to the Company's executive management and board of managers as required by the Company from time to time. The Company recorded management fees (included in selling, general, and administrative expenses in the combined statements of operations) of \$250,000 related to management services under the agreement for the quarters ended March 31, 2018 and 2017, respectively. The Company also recorded other expenses of \$33,657 and \$18,914 related to BWCP's operating expenses (included in selling, general, and administrative expenses in the combined statements of operations) for the quarters ended March 31, 2018 and 2017, respectively.

**The Mulch and Soil Company, LLC** – SLHC paid fees on behalf of TMSC related to its integration of SRMs personnel and operations. As of March 31, 2018 and December 31, 2017, TMSC owed the Company \$1,623,615 and \$157,140, respectively, which is included in due from related parties on the accompanying combined balance sheets.

**BW SLC Holdings, LLC** – The Company, along with affiliate entities under common control of Ultimate Parent, pays its estimated portion of certain technology fees to Ultimate Parent, with whom the related technology agreements is held. The Company recorded (included in selling, general, and administrative expenses in the combined statements of operations) \$42,300 and \$13,623 of technology fees for the quarters ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company owed \$96,793 and \$181,740, respectively, to Ultimate Parent for the related technology fees, which are included in due to related parties on the accompanying combined balance sheets. CRFP was also advanced funds from Ultimate Parent for certain operating expenses. The amount owed to Ultimate Parent by the Company as of March 31, 2018 and December 31, 2017 was \$536,836 and \$481,836, respectively, and is included in due to related parties on the accompanying combined balance sheets.

**Board compensation** - The Company has consulting agreements with its outside board members and recorded fees (included in selling, general and administrative expenses in the combined statements of operations) of \$31,500 for the quarters ended March 31, 2018 and 2017.

# BW Group

## Notes to Combined Financial Statements

(See Independent Auditors' Review Report)

### **Note 15 – Employee Benefit Plan**

The Company, through Ultimate Parent, has a 401(k) retirement plan (the “Plan”) that covers all employees who are at least 21 years old. Participants may contribute up to 20% of their compensation to the 401(k) portion of the Plan, not to exceed the maximum allowed by law. The Company makes a matching contribution of 100% of the first 6% of each employee contribution for eligible employees to the 401(k) plan. The matching contribution is fully vested upon participation. Company contributions charged to operations amounted to \$137,962 and \$110,471 for quarters ended March 31, 2018 and 2017, respectively.

### **Note 16 – Members' Equity**

CRFP has authorized two classes of Units: (i) Class A Common Units; and (ii) Class B Common Units, each having the rights and limitations set forth herein. SLHC and STM have authorized only Class A Common Units. Voting rights are limited to those holding Class A Common Units.

**Class A Common Units** – CRFP issued and granted 1,000 Class A Common Units on September 20, 2016. An additional 73 and 16 Class A Common Units were issued and granted on August 16, 2017 and December 1, 2017, respectively. Contributed capital of the Class A common units of CRFP was \$29,067,555 at March 31, 2018 and December 31, 2017. SLHC issued and granted 1,000 Class A Common Units on May 21, 2015 and the contributed capital at March 31, 2018 and December 31, 2017 was \$5,838,235. STM issued and granted 1,000 Class A Common Units on December 18, 2013 and the contributed capital at March 31, 2018 and December 31, 2017 was \$6,633,496.

**Class B Common Units** - CRFP issued and granted 59 Class B Common Units on December 1, 2017 with 12 Units outstanding according to their individual time-based vesting requirements as of March 31, 2018 and December 31, 2017 (see Note 17).

### **Note 17 – Profits Interest**

CRFP issued Profits Interest Units on December 1, 2017 to certain Management personnel in connection with their continued employment with the Company. The Profits Interest vest over a five-year period with the first vesting date being December 31, 2017 and entitle the holders to receive a distribution upon the occurrence of a qualifying transaction as defined. Share-based compensation expense is reported in selling, general, and administrative expenses when it is probable that a distribution will occur. There was no share-based compensation expense for the quarters ended March 31, 2018 and 2017 since the Company had not determined that a qualifying event was probable of occurring.

**APPENDIX C**

**CONIFEX *PRO FORMA* CONSOLIDATED FINANCIAL INFORMATION**

(See attached.)

Unaudited pro forma consolidated financial statements of

**Conifex Timber Inc.**

# Conifex Timber Inc.

March 31, 2018 and December 31, 2017

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# Conifex Timber Inc.

Unaudited pro forma consolidated balance sheet

As at March 31, 2018

(thousands of Canadian dollars)	Conifex Timber	BW Group (note 3)	Pro forma adjustments (note 4)	Pro forma consolidated
	\$	\$	\$	\$
<b>Assets</b>				
<i>Current assets</i>				
Cash	8,631	9,224	(9,224) a	8,631
Cash - restricted	11,316	-	-	11,316
Trade and other receivables	37,402	8,086	-	45,488
Trade receivables from related parties	-	2,881	(743) a	2,138
Prepaid expenses and deposits	10,315	2,450	267 c	13,032
Inventories	78,145	19,708	-	97,853
<b>Current assets</b>	<b>145,809</b>	<b>42,349</b>	<b>(9,700)</b>	<b>178,458</b>
Goodwill	3,311	1,328	193,147 a	197,786
Intangible assets	5,221	1,621	(1,621) a	5,221
Property, plant and equipment	276,402	68,600	-	345,002
Long-term investments and other	25,630	267	268 a,c	26,165
<b>Total assets</b>	<b>456,373</b>	<b>114,165</b>	<b>182,094</b>	<b>752,632</b>
<b>Liabilities</b>				
<i>Current liabilities</i>				
Trade payables, accrued liabilities and other payables	37,451	9,923	(103) a	47,271
Trade payables to related parties	-	846	(752) a	94
Current portion of reforestation obligations	5,260	-	-	5,260
Employee liabilities	2,174	650	(271) a	2,553
Operating loans	1,600	3,263	(3,263) a	1,600
Current portion of long-term debt	5,927	8,845	(8,702) a	6,070
<b>Current liabilities</b>	<b>52,412</b>	<b>23,527</b>	<b>(13,091)</b>	<b>62,848</b>
Reforestation obligations	9,949	-	-	9,949
Environmental liabilities	1,348	1,411	(1,411) a	1,348
Other long-term liabilities	10,971	387	(387) a	10,971
Long-term debt	65,553	65,241	(65,036) a	65,758
Long-term debt due to related parties	-	2,797	(2,797) a	-
Revolving credit facility	99,915	-	161,778 b4	261,693
Deferred income tax liabilities	3,766	-	-	3,766
<b>Non-current liabilities</b>	<b>191,502</b>	<b>69,836</b>	<b>92,147</b>	<b>353,485</b>
<b>Total liabilities</b>	<b>243,914</b>	<b>93,363</b>	<b>79,056</b>	<b>416,333</b>
<b>Equity</b>				
Share capital	174,489	20,802	100,069 a,b1,b2,c	295,360
Contributed surplus	11,512	-	4,969 b3	16,481
Retained earnings	26,458	-	(2,000) c	24,458
<b>Total equity</b>	<b>212,459</b>	<b>20,802</b>	<b>103,038</b>	<b>336,299</b>
<b>Total liabilities and equity</b>	<b>456,373</b>	<b>114,165</b>	<b>182,094</b>	<b>752,632</b>

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

# Conifex Timber Inc.

Unaudited pro forma consolidated statement of net income and comprehensive income  
Year ended December 31, 2017

(thousands of Canadian dollars)	Conifex Timber	BW Group (note 3)	Pro forma adjustments (note 4)	<b>Pro forma consolidated</b>
	\$	\$	\$	\$
<b>Revenue</b>	469,729	113,920	-	<b>583,649</b>
<b>Costs and expenses</b>				
Cost of goods sold	351,025	91,070	-	<b>442,095</b>
Freight and distribution costs	57,308	5,837	-	<b>63,145</b>
Softwood lumber duties	9,899	-	-	<b>9,899</b>
Selling, general and administrative	20,066	5,474	(3,430) c.e.f.g	<b>22,110</b>
	438,298	102,381	(3,430)	<b>537,249</b>
<b>Operating income</b>	<b>31,431</b>	<b>11,539</b>	<b>3,430</b>	<b>46,400</b>
Gain (loss) on disposal of assets	7	(31)	-	<b>(24)</b>
Interest expense and accretion	(7,586)	(6,418)	(1,666) c.d.g	<b>(15,670)</b>
Other income (expense)	(1,904)	95	-	<b>(1,809)</b>
Foreign exchange loss	(1,871)	-	-	<b>(1,871)</b>
	(11,354)	(6,354)	(1,666)	<b>(19,374)</b>
Income before taxes	20,077	5,185	1,764	<b>27,026</b>
Income tax expense:				
Current	-	-	-	-
Deferred	3,106	-	-	<b>3,106</b>
	3,106	-	-	<b>3,106</b>
<b>Net income and comprehensive income for the year</b>	<b>16,971</b>	<b>5,185</b>	<b>1,764</b>	<b>23,920</b>
<b>Net income per share, basic and diluted: (in dollars)</b>	<b>0.67</b>	<b>-</b>	<b>-</b>	<b>0.53</b>

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

# Conifex Timber Inc.

Unaudited pro forma consolidated statement of net income and comprehensive income  
Three month period ended March 31, 2018

(thousands of Canadian dollars)	Conifex Timber	BW Group (note 3)	Pro forma adjustments (note 4)	<b>Pro forma consolidated</b>
	\$	\$	\$	\$
<b>Revenue</b>	130,825	41,249	-	<b>172,074</b>
<b>Costs and expenses</b>				
Cost of goods sold	100,202	34,280	-	<b>134,482</b>
Freight and distribution costs	12,179	1,293	-	<b>13,472</b>
Softwood lumber duties	6,284	-	-	<b>6,284</b>
Selling, general and administrative	5,145	1,777	(845) c.e.f.g	<b>6,077</b>
	123,810	37,350	(845)	<b>160,315</b>
<b>Operating income</b>	7,015	3,899	845	<b>11,759</b>
Gain (loss) on disposal of assets	-	-	-	-
Interest expense and accretion	(1,624)	(2,020)	(405) c.d.g	<b>(4,049)</b>
Other income (expense)	(2,294)	37	-	<b>(2,257)</b>
Foreign exchange gain	104	-	-	<b>104</b>
	(3,814)	(1,983)	(405)	<b>(6,202)</b>
Income before taxes	3,201	1,916	440	<b>5,557</b>
Income tax expense:				
Current	-	-	-	-
Deferred	660	-	-	<b>660</b>
	660	-	-	<b>660</b>
<b>Net income and comprehensive income for the period</b>	2,541	1,916	440	<b>4,897</b>
<b>Net income per share, basic and diluted: (in dollars)</b>	0.10	-	-	<b>0.11</b>

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

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

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### 1. PROPOSED ACQUISITION OF ASSETS

On May 15, 2018, Conifex Timber Inc. (“Conifex” or the “Corporation”), through certain of its subsidiaries, entered into a Securities Purchase Agreement (“SPA”) to purchase all of the outstanding membership interests of Suwannee Lumber Holding Company, LLC, Suwannee Timber Management, LLC and Caddo River Forest Products, LLC (collectively, the “BW Group”). Pursuant to the SPA, Conifex’s consideration for its acquisition of the BW Group (the “Acquisition”) consists of US\$150.0 million plus the net working capital of the BW Group at closing in cash, the value of US\$50.0 million through the issuance of common shares of Conifex (the “Common Shares”) provided, however, that to the extent the Common Shares issued to the vendors would exceed 19.9% of the issued and outstanding Common Shares, the excess amount shall be satisfied in cash (the “Share Issuance”), and 3,500,000 warrants to purchase Common Shares exercisable into a Common Share for a period of five years after closing of the Acquisition (the “Warrants”). The Acquisition is to be accounted for as the purchase of a business, hereinafter described as the “BW Business”, by Conifex.

BW Group owns the Suwannee sawmill in Cross City, Florida (the “Suwannee Mill”) and the Caddo River sawmill in Glenwood, Arkansas (the “Caddo River Mill”), which both primarily produce Southern Yellow Pine softwood lumber and specialty products. The Suwannee Mill and Caddo River Mill each have an annual dimension lumber capacity of 185 million board feet on a two-shift basis. Both Suwannee Mill and Caddo River Mill have completed significant modernization capital projects in recent years. BW Group’s customers include lumber treaters, distributors, wholesalers, and retailers, as well as other industrial customers including remanufacturers, pulp and paper mills, and bioenergy plants. BW Group’s products are primarily marketed throughout the Southeast and Southwest United States.

Conifex expects to finance the Acquisition through net proceeds of (i) a public offering of subscription receipts of Conifex, which will convert into common shares of Conifex on a one-for-one basis on closing of the Acquisition, of \$64.5 million (the “Offering”), (ii) funds drawn from a new credit facility in the amount of US\$220.0 million with a term of five years committed in connection with the Acquisition (the “Credit Facility”), (iii) through the Share Issuance, and (iv) through the issuance of the Warrants.

### 2. BASIS OF PREPARATION

These unaudited pro forma consolidated financial statements are presented in Canadian dollars and have been prepared consistent with the measurement principles of International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), based on the historical financial statements of Conifex and BW Group as of March 31, 2018, for the three month period ended March 31, 2018, and for the year ended December 31, 2017, adjusted to give effect to the Acquisition, the Share Issuance, the Offering, the Credit Facility, and the Warrants.

The unaudited pro forma consolidated balance sheet gives effect to the Acquisition as if the Acquisition had occurred as of March 31, 2018. The unaudited pro forma consolidated statements of net income and comprehensive income for the three month period ended March 31, 2018 and the year ended December 31, 2017 give effect to the acquisition as if the Acquisition occurred on January 1, 2017. The pro forma adjustments are described in these accompanying notes.

The unaudited pro forma consolidated financial statements were prepared by management of Conifex to illustrate the estimated effects of the Acquisition, the Share Issuance, the Offering, the Credit Facility, and the Warrants. The unaudited pro forma adjustments are based upon available information and certain assumptions that management of Conifex believes are reasonable. The unaudited pro forma consolidated financial statements do not purport to represent Conifex’s results of operations or financial condition for any future period or as of any date. In preparing the unaudited pro forma consolidated financial statements, no adjustments have been made to reflect the financial benefits of cost savings and revenue synergies arising from the Acquisition.

The Acquisition will be accounted for as a business combination in accordance with the acquisition method. The fair values of the tangible and intangible assets of BW Group will be based upon their respective fair values as of the closing of the Acquisition based on valuations which are not yet available. A preliminary estimate of fair value has been made for major categories of assets in the accompanying unaudited pro forma consolidated

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

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financial statements. The actual fair values and the resulting effect on the balance sheet and statement of net income and comprehensive income may differ materially from the unaudited pro forma amounts included herein.

The accounting policies used in the preparation of the unaudited pro forma consolidated financial statements are those described in Conifex's audited consolidated financial statements for the year ended December 31, 2017. These unaudited pro forma consolidated financial statements should be read in conjunction with Conifex's unaudited condensed consolidated interim financial statements as at March 31, 2018 and for the three month period then ended and audited consolidated financial statements for the year ended December 31, 2017, including the notes thereto, which are incorporated by reference in this prospectus; and should also be read in conjunction with BW Group's unaudited combined financial statements for the three month period ended March 31, 2018 and audited combined financial statements for the year ended December 31, 2017, prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which are included in this prospectus.

### **3. BW GROUP'S FINANCIAL STATEMENTS – RECLASSIFICATIONS, PRESENTATION CURRENCY, AND IFRS**

BW Group's combined financial statements have been prepared in accordance with US GAAP. Management has reviewed the accounting policies of BW Group and has not identified any material US GAAP measurement differences in conforming BW Group's financial statements to IFRS. Certain reclassification adjustments were required to align BW Group's financial statement presentation with IFRS and with those of Conifex. The adjustments are further described below.

BW Group's audited and unaudited combined financial statements for the year ended December 31, 2017 and the three month period ended March 31, 2018 have been translated from United States dollars to Canadian dollars using the current rate method. The unaudited combined balance sheet of BW Group has been translated into Canadian dollars at the exchange rate of March 31, 2018 (CDN\$1.2894 per US\$1.00). BW Group's combined statements of operations have been translated into Canadian dollars using the average exchange rates during their respective periods (year ended December 31, 2017 – CDN\$1.2986 per US\$1.00, and three month period ended March 31, 2018 – CDN\$1.2647 per US\$1.00).

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

### BW GROUP

#### COMBINED BALANCE SHEET AS OF MARCH 31, 2018

	US GAAP	Adjustments	IFRS	IFRS
	US\$	US\$	US\$	CDN\$
			\$	\$
<b>Assets</b>				
<i>Current assets</i>				
Cash	7,154	-	7,154	9,224
Cash - restricted	-	-	-	-
Trade and other receivables	6,271	-	6,271	8,086
Due from related parties	2,234	-	2,234	2,881
Prepaid expenses and deposits	1,504	396 b, c	1,900	2,450
Inventories	13,392	1,893 d	15,285	19,708
<b>Current assets</b>	<b>30,555</b>	<b>2,289</b>	<b>32,844</b>	<b>42,349</b>
Goodwill	1,030	-	1,030	1,328
Intangible assets	1,257	-	1,257	1,621
Property, plant and equipment	53,203	-	53,203	68,600
Spare parts and other	2,718	(2,511) b,c,d	207	267
<b>Total assets</b>	<b>88,763</b>	<b>(222)</b>	<b>88,541</b>	<b>114,165</b>
<b>Liabilities</b>				
<i>Current liabilities</i>				
Trade payables, accrued liabilities and other payables	5,544	2,152 e,f,g	7,696	9,923
Employee liabilities	-	504 e	504	650
Deferred income	80	(80) f	-	-
Timber contract liabilities	2,688	(2,688) f	-	-
Operating loans	2,753	(222) c	2,531	3,263
Current portion of long-term debt	6,748	112 g	6,860	8,845
Due to related parties	656	-	656	846
<b>Current liabilities</b>	<b>18,469</b>	<b>(222)</b>	<b>18,247</b>	<b>23,527</b>
Environmental liabilities	1,094	-	1,094	1,411
Other long-term liabilities	300	-	300	387
Long-term debt	50,439	159 h	50,598	65,241
Long-term debt to related parties	2,169	-	2,169	2,797
Capital lease obligations	159	(159) h	-	-
<b>Non-current liabilities</b>	<b>54,161</b>	<b>-</b>	<b>54,161</b>	<b>69,836</b>
<b>Total liabilities</b>	<b>72,630</b>	<b>(222)</b>	<b>72,408</b>	<b>93,363</b>
Members' equity	16,133	-	16,133	20,802
<b>Total liabilities and equity</b>	<b>88,763</b>	<b>(222)</b>	<b>88,541</b>	<b>114,165</b>

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

**BW GROUP**  
**COMBINED STATEMENT OF NET INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	US GAAP US\$	Adjustments US\$	IFRS US\$	IFRS CDN\$
			\$	\$
<b>Revenue</b>	101,085	(13,360) i	87,725	<b>113,920</b>
<b>Costs and expenses</b>				
Costs of goods sold	84,502	(14,373) i,j,k	70,129	<b>91,070</b>
Freight and distribution costs	-	4,495 i,j	4,495	<b>5,837</b>
Selling, general and administrative	9,743	(5,528) i,k	4,215	<b>5,474</b>
	94,245	(15,406)	78,839	<b>102,381</b>
<b>Operating income</b>	6,840	2,046	8,886	<b>11,539</b>
Loss on disposal of assets	(60)	36 i	(24)	<b>(31)</b>
Interest expense and accretion	(5,121)	179 i	(4,942)	<b>(6,418)</b>
Other income	74	(1) i	73	<b>95</b>
	(5,107)	214	(4,893)	<b>(6,354)</b>
<b>Net income</b>	1,733	2,260	3,993	<b>5,185</b>

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

**BW GROUP  
COMBINED STATEMENT OF NET INCOME  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018**

	US GAAP US\$	Adjustments US\$	IFRS US\$	IFRS CDN\$
			\$	\$
<b>Revenue</b>	32,616	-	32,616	<b>41,249</b>
<b>Costs and expenses</b>				
Costs of goods sold	26,732	373 j,k	27,105	<b>34,280</b>
Freight and distribution costs	-	1,022 j	1,022	<b>1,293</b>
Selling, general and administrative	2,494	(1,089) k	1,405	<b>1,777</b>
	29,226	306	29,532	<b>37,350</b>
<b>Operating income</b>	3,390	(306)	3,084	<b>3,899</b>
Loss on disposal of assets	-	-	-	-
Interest expense and accretion	(1,597)	-	(1,597)	<b>(2,020)</b>
Other income	29	-	29	<b>37</b>
	(1,568)	-	(1,568)	<b>(1,983)</b>
<b>Net income</b>	1,822	(306)	1,516	<b>1,916</b>

### US GAAP to IFRS differences

a) There are no material US GAAP to IFRS measurement differences applicable to BW Group's combined financial statements impacting the pro forma consolidated financial statements.

### Reclassifications

Certain reclassification adjustments were required to BW Group's financial statement presentation to be in accordance with IFRS and Conifex's financial statement presentation. These reclassifications include:

- b) Reclass US\$401,300 timber deposits from spare parts and other assets to prepaid expenses and deposits.
- c) Reclass US\$4,992 and US\$217,230 loan origination costs from prepaid expenses and deposits and spare parts and other assets, respectively, to operating loans.
- d) Reclass US\$1,892,693 spare parts inventory from spare parts and other assets to inventories.
- e) Reclass US\$504,098 employee liabilities from trade payables, accrued liabilities and other payables.
- f) Reclass US\$80,000 deferred income and US\$2,687,716 timber contract liabilities to trade payables, accrued liabilities and other payables.
- g) Reclass US\$111,637 current portion of capital lease obligations from trade payables, accrued liabilities and other payables to current portion of long-term debt.
- h) Reclass US\$159,457 capital lease obligations to long-term debt.

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

- i) Caddo River Mill's annualized finished goods production was less than 65% of its capacity in 2017. Conifex's policy is to capitalize start-up losses until approximately 65% of capacity is achieved. Start-up losses of US\$2,258,841 for the year ended December 31, 2017 were eliminated from the statement of net income.
- j) Reclass US\$4,494,577 for the year ended December 31, 2017 and US\$1,021,715 for the three month period ended March 31, 2018 from cost of goods sold to freight and distribution costs.
- k) Reclass US\$2,868,720 for the year ended December 31, 2017 and US\$1,088,508 for the three month period ended March 31, 2018 from selling, general and administrative to cost of goods sold.

#### 4. ACQUISITION PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

Under the terms of the SPA, Conifex, through one of its subsidiaries, will acquire all of the outstanding membership interests of BW Group for purchase consideration of approximately US\$150.0 million plus the net working capital of BW Group at closing in cash, the Share Issuance of up to US50.0 million and the issuance of the Warrants with fair market value of \$5.0 million.

The Corporation intends to fund the Acquisition through a combination of the Share Issuance, the Offering, the Credit Facility, and the Warrants.

The Acquisition will be accounted for as a business combination using the acquisition method, with Conifex being the acquirer and BW Group being the acquiree, and where the assets and liabilities assumed will be recorded at their fair values at the Acquisition date.

#### Fair value of assets acquired and liabilities assumed

The preliminary estimated fair value of BW Group's identified assets and liabilities assumed in accordance with the acquisition method are as follows:

	US\$	CDN\$
	\$	\$
Cash consideration for membership interests	153,298	197,662
Cash consideration for working capital	17,131	22,089
Common Shares consideration	46,702	60,096
Fair value of Warrants	3,854	4,969
<b>Estimated total purchase price</b>	<b>220,985</b>	<b>284,816</b>
Assets and liabilities acquired:		
Trade and other receivables	7,929	10,224
Prepaid expenses and deposits	1,900	2,450
Inventories	15,285	19,708
Property, plant and equipment	53,203	68,600
Trade payables, accrued liabilities and other payables	(7,983)	(10,293)
Capital leases	(271)	(348)
Estimated identifiable net assets acquired	70,063	90,341
Goodwill	150,922	194,475
<b>Estimated net assets acquired</b>	<b>220,985</b>	<b>284,816</b>

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

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### Estimated net assets acquired

The above is a preliminary estimate of the fair value of the assets acquired and liabilities assumed of BW Group as of March 31, 2018. The final determination of the fair value of assets acquired and liabilities assumed, which is expected to be no later than one year from the Acquisition date, could differ significantly from the amounts presented in the unaudited pro forma consolidated financial statements. The goodwill arising from the Acquisition is expected to be deductible for US tax purposes through amortization over a number of years.

Significant assumptions and estimates made as it relates to the preliminary purchase price presented above are as follows:

- Estimated identifiable assets and liabilities – The book values are assumed to equal their fair values for the purposes of these unaudited pro forma consolidated financial statements.
- Goodwill – This represents the excess of the purchase price compared to the estimate of the fair value of the identifiable assets acquired and liabilities assumed.

To the extent applicable, the pro forma adjustments that follow have been tax effected at a rate of 25.7% and 27.0% for US and Canadian related adjustments, respectively.

### Pro forma adjustments

- a) This entry on the pro forma balance sheet is to recognize the estimated identifiable assets and liabilities assumed, and goodwill, as noted in the table and commentary above. This entry also removes assets and liabilities that the Corporation is not purchasing as part of the Acquisition.
- b) The Corporation intends to finance the purchase of BW Group as follows:
  1. Through the proceeds from the Offering. The Corporation expects to issue 10,750,000 Common Shares at \$6.00 per share for gross proceeds before transaction costs of \$64.5 million.
  2. The Share Consideration. The Share Consideration was calculated based on a 20-day volume weighted average trade price of the Corporation's common shares immediately prior to May 15, 2018, converted to US dollars based on the average Canadian dollar to US dollar exchange rate of CDN\$1.2868 per US\$1.00. The total common shares expected to be issued is 9,245,598.
  3. The Warrants. The fair value of each Warrant is calculated using the Black-Sholes option pricing model at a price of \$1.42. The Warrants are exercisable into a Common Share for a period of five years after closing of the Acquisition, at an exercise price of \$8.78.
  4. Advances drawn under the Credit Facility. In connection with the Acquisition, Conifex has received from a US bank a commitment for a new credit facility in the amount of US\$220.0 million with a term of five years to partially finance the Acquisition, replace its current facility and for general working capital. In connection with the additional advances, the Corporation expects to incur additional interest expense of \$1.9 million and \$0.5 million for the year ended December 31, 2017 and the three month period ended March 31, 2018, respectively, in excess of the interest recorded by BW Group in these respective periods. The Corporation has assumed an effective interest rate on the additional drawings under the Credit Facility of 5.8%.
- c) Conifex will incur aggregate costs of approximately US\$9.1 million (\$11.7 million) in connection with the Acquisition, the Share Issuance, the Offering, the Credit Facility, and the Warrants. For the purposes of these unaudited consolidated pro forma financial statements, it is assumed that these costs have been paid from the proceeds of the Offering. Costs related to the Credit Facility of US\$4.0 million (\$5.2 million) are netted against bank indebtedness and amortized over the expected term of the Credit Facility, being five years. Costs related to the Offering of \$3.7 million are recorded in Shareholders' Equity. Representations and warranty insurance of \$0.8 million are recorded as prepaid expenses and will be amortized over the policy coverage period of three years. The remaining transaction costs associated with the Acquisition of

# Conifex Timber Inc.

## Notes to the unaudited pro forma consolidated financial statements

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

\$2.0 million are non-recurring and are included in retained earnings in the pro forma balance sheet as at March 31, 2018.

- d) Conifex incurred amortization expense related to loan origination costs of \$0.4 million and \$0.1 million for the year ended December 31, 2017 and three month period ended March 31, 2018, respectively. These expenses have been removed from interest expense in the pro forma statement of net income and comprehensive income.
- e) BW Group incurred compensation related expenses for several members of its senior management which will not be incurred by the BW Business following the Acquisition. These expenses, included in selling, general and administrative expenses, are \$1.9 million and \$0.5 million for the year ended December 31, 2017 and three month period ended March 31, 2018, respectively, and have been eliminated in the pro forma statement of net income and comprehensive income.
- f) BW Group incurred owner related expenses which will not be incurred by the BW Business following the Acquisition. These expenses, which are included in selling, general and administrative expense, are \$1.5 million and \$0.3 million for the year ended December 31, 2017 and the three month period ended March 31, 2018, respectively, and have been eliminated in the pro forma statement of net income and comprehensive income.
- g) BW Group incurred amortization expense related to intangible assets and loan origination costs of \$1.2 million and \$0.3 million for the year ended December 31, 2017 and the three month period ended March 31, 2018, respectively. These expenses have been removed from selling, general and administrative expenses and interest expense in the pro forma statement of net income and comprehensive income.

### 5. EARNINGS PER SHARE

The unaudited pro forma earnings per share, both basic and diluted, is computed by dividing the pro forma net income by the pro forma weighted average number of common shares outstanding on a basic or diluted basis. The calculation of the earnings per share is based on the weighted average number of Conifex common shares for the year ended December 31, 2017 and three month period ended March 31, 2018, and gives effect to the issuance of 19,995,598 common shares expected to be issued as a result of the Offering and the Share Issuance.

### 6. ACQUISITION PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

A continuity of share capital of the Corporation at March 31, 2018, after the effect of the Offering and the Share Issuance, would be as follows:

	Number of common shares (in thousands)	Amount \$
Corporation balance at March 31, 2018	26,465	174,489
Shares issued in the Offering	10,750	64,500
Anticipated costs of the Offering	-	(3,725)
Share Issuance	9,245	60,096
<b>Pro forma balance at March 31, 2018</b>	<b>46,460</b>	<b>295,360</b>