As at and for the years ended December 27, 2019 and December 28, 2018

Consolidated Financial Statements

Pinnacle® RENEWABLE ENERGY

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pinnacle Renewable Energy Inc.

Opinion

We have audited the consolidated financial statements of Pinnacle Renewable Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 27, 2019 and December 28, 2018;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and,
- notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 27, 2019 and December 28, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

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

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

Other Information

Management is responsible for the other information. Other information comprises the information in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

We obtained Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company (which is the group entity) to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada
March 2, 2020

PINNACLE RENEWABLE ENERGY INC.

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars unless otherwise stated)

As at	Note	December 27, 2019	December 28, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**11,267**	18,028
Accounts receivable	4	**36,764**	41,502
Inventory	5	**46,938**	24,531
Receivable against NMTC debt	10	**12,774**	1,515
Other current assets		**11,436**	5,846
Total current assets		**119,179**	91,422
Property, plant and equipment	6	**399,181**	337,285
Goodwill and intangible assets	7	**100,191**	103,679
Investment in Houston Pellet Limited Partnership	8	**7,548**	9,374
Receivable against NMTC debt	10	**-**	84,877
Other long-term assets		**1,364**	2,500
Deferred income taxes	16	**2,448**	149
Total assets		**629,911**	629,286
LIABILITIES AND EQUITY			
Current liabilities			
Revolver loan	9	**19,200**	18,450
Accounts payable and accrued liabilities		**51,183**	43,745
Current portion of long-term debt	9	**4,200**	9,500
Current portion of NMTC debt	10	**12,774**	1,515
Current portion of lease liabilities		**7,424**	-
Other current liabilities		**1,786**	3,642
Total current liabilities		**96,567**	76,852
Long-term debt	9	**292,614**	232,425
NMTC debt	10	**-**	84,877
Other long-term liabilities	11	**2,462**	4,334
Lease liabilities		**29,551**	-
Total liabilities		**421,194**	398,488
Equity			
Shareholders' Equity			
Common shares	12	**277,619**	273,966
Contributed surplus		**4,145**	3,556
Accumulated Other Comprehensive Income/(loss)		**(1,320)**	-
Deficit		**(117,191)**	(86,423)
Total equity attributable to owners of the Company		**163,253**	191,099
Non-controlling interest	13	**45,464**	39,699
Total equity		**208,717**	230,798
Total liabilities and equity		**629,911**	629,286

Contingencies (note 24)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin *s/Rex McLennan*

Director, Gregory Baylin Director, Rex McLennan

PINNACLE RENEWABLE ENERGY INC

Consolidated Statements of Income/(Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	Note	**December 27, 2019**	**December 28, 2018**
Revenue	25	**377,808**	347,440
Costs and expenses			
Production		**258,547**	233,107
Distribution		**54,021**	46,899
Selling, general and administration	14	**18,495**	22,789
Amortization of equipment and intangible assets	6,7	**39,997**	24,782
		371,060	327,577
Operating income		**6,748**	19,863
Other income/(expense)			
Equity earnings in Houston Pellet Limited Partnership	8	**573**	1,058
Gain/(loss) on disposal of property, plant and equipment		**(1,103)**	382
Gain/(loss) on class B&D common shares		**-**	3,563
Loss on conversion of debentures into shares		**-**	(21,881)
Impairment of Entwistle plant		**(9,417)**	-
Impairment of Intangibles		**(278)**	-
Insurance recovery for property loss at Entwistle plant		**9,000**	-
Finance costs	15	**(24,178)**	(2,955)
Other income		**6,376**	1,474
Plant impairment loss and curtailment costs		**-**	(234)
		(19,027)	(18,593)
Net profit (loss) before income taxes		**(12,279)**	1,270
Income tax recovery/(expense)			
Deferred	16	**2,305**	1,415
		2,305	1,415
Net profit (loss)		**(9,974)**	2,685
Net profit (loss) attributable to:			
Owners of the Company		**(10,807)**	1,864
Non-controlling interests	13	**833**	821
		(9,974)	2,685
Net profit (loss) per share attributable to owners (Basic and diluted):	17	**(0.33)**	0.05
Weighted average of number of shares outstanding (thousands):	17	**33,238**	32,974

See accompanying notes to the consolidated financial statements

PINNACLE RENEWABLE ENERGY INC.

Consolidated Statements of Comprehensive Income/(Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	Note	**December 27, 2019**	**December 28, 2018**
Net profit (loss)		**(9,974)**	2,685
Other comprehensive income (loss) net of taxes:			
Items that may be recycled through net income:			
Foreign exchange translation of foreign operations, net of tax		**(940)**	-
Comprehensive income (loss) for the year		**(10,914)**	2,685

Comprehensive income (loss) attributable to:			
Owners of the Company		**(12,127)**	1,864
Non-controlling interests		**1,213**	821
		(10,914)	2,685

PINNACLE RENEWABLE ENERGY INC.

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars unless otherwise stated)

	Number of Common Shares (#)	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures - Equity Component	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 29, 2017	**57,600,000**	**-**	**29,500**	**28,005**	**4,332**	**35,213**	**-**	**(75,419)**	**13,573**	**35,204**
Net profit (loss) for the period	-	-	-	-	-	-	-	1,864	821	2,685
Share exchange at Initial Public Offering ("IPO")	(47,424,946)	57,505	(29,500)	(28,005)	-	-	-	-	-	-
Exchange of liability-classified shares at IPO	1,995,357	22,448	-	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at IPO	432,853	1,597	-	-	(1,597)	-	-	-	-	-
Conversion of debentures at IPO	14,076,068	125,269	-	-	-	(35,213)	-	-	-	90,056
Share issuance at IPO	6,223,889	70,019	-	-	-	-	-	-	-	70,019
Share issuance costs	-	(3,987)	-	-	-	-	-	-	-	(3,987)
Stock options exercised during the period	100,492	1,115	-	-	(464)	-	-	-	-	651
Stock-based compensation	-	-	-	-	1,285	-	-	-	-	1,285
Dividends declared during the period	-	-	-	-	-	-	-	(12,868)	-	(12,868)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,075)	(1,075)
Investment by non-controlling interest	-	-	-	-	-	-	-	-	26,380	26,380
Balance, December 28, 2018	**33,003,713**	**273,966**	**-**	**-**	**3,556**	**-**	**-**	**(86,423)**	**39,699**	**230,798**
Net profit (loss) for the period	-	-	-	-	-	-	-	(10,807)	833	(9,974)
Stock options exercised during the period (note 12)	51,094	567	-	-	(235)	-	-	-	-	332
RSUs settled during the period (note 12)	263,545	3,086	-	-	-	-	-	-	-	3,086
Stock-based compensation (note 12)	-	-	-	-	824	-	-	-	-	824
Dividends declared during the period (note 12)	-	-	-	-	-	-	-	(19,938)	-	(19,938)
Reversal of excess dividend accrual	-	-	-	-	-	-	-	(23)	-	(23)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	-	(1,320)	-	380	(940)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,100)	(1,100)
Investment from non-controlling interests	-	-	-	-	-	-	-	-	5,652	5,652
Balance, December 27, 2019	**33,318,352**	**277,619**	**-**	**-**	**4,145**	**-**	**(1,320)**	**(117,191)**	**45,464**	**208,717**

See accompanying notes to the consolidated financial statements

PINNACLE RENEWABLE ENERGY INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	Note	**December 27, 2019**	December 28, 2018
Cash provided by (used in)			
Operating activities			
Net profit (loss)		**(9,974)**	2,685
Financing costs, net	15	**24,178**	2,955
Items not involving cash:			
Loss on conversion of debentures into shares		**-**	21,881
Amortization of equipment and intangible assets		**39,997**	24,782
Equity earnings in Houston Pellet Limited Partnership	8	**(573)**	(1,058)
(Gain) loss on disposal of equipment		**1,103**	(382)
Stock-based compensation	12	**1,020**	4,266
Inventory write (up) down	5	**181**	(319)
Impairment of Entwistle plant	6	**9,417**	-
Impairment of intangible assets	7	**278**	-
Insurance received for business interruption at Entwistle plant	24	**7,100**	-
Insurance recoverable recorded in income for Entwistle plant	24	**(22,000)**	-
(Gain) loss on Class B and D common shares		**-**	(3,563)
Deferred income tax (recovery) expense	16	**(2,305)**	(1,399)
Realized (gain) loss on derivatives		**2,152**	308
Distributions from Houston Pellet Limited Partnership		**2,400**	600
		52,974	50,756
Net change in non-cash operating working capital	18	**(20,012)**	7,017
		32,962	57,773
Financing activities			
Drawings on revolver loan		**199,600**	24,450
Repayment of revolver loan		**(198,850)**	(28,000)
Payment of finance leases		**(9,862)**	(707)
Drawings on term debt		**277,944**	20,000
Repayment of term debt		**(194,000)**	(6,000)
Drawings on delayed draw loan		**20,000**	50,491
Repayment of delayed draw loan		**(49,760)**	(20,000)
Repayment of $15M debentures		**-**	(28,577)
Share issuance costs		**-**	(5,435)
Proceeds from Initial Public Offering		**-**	70,019
Proceeds from exercise of stock options		**332**	651
Dividends paid during the year		**(19,939)**	(12,868)
Investment from non-controlling interest		**5,652**	5,863
Distributions to non-controlling interest		**(1,100)**	(1,075)
Finance costs paid		**(16,902)**	(8,882)
		13,115	59,930
Investing activities			
Insurance recovery for property loss at Entwistle plant	24	**8,000**	-
Acquisition of the Aliceville Facility	19	**-**	(47,569)
Purchase of property, plant and equipment	18	**(61,032)**	(73,131)
Proceeds from sale of property, plant and equipment		**157**	1,903
		(52,875)	(118,797)
Foreign exchange gain (loss) on cash position held in foreign currency		**37**	214
Increase (decrease) in cash and cash equivalents		**(6,761)**	(880)
Cash and cash equivalents, beginning of year		**18,028**	18,908
Cash and cash equivalents, end of year		**11,267**	18,028

See accompanying notes to the consolidated financial statements

1. Reporting entity

Pinnacle Renewable Energy Inc. (the "Company" or "Pinnacle") was incorporated on December 6, 2010 under the laws of the Province of British Columbia and maintains its head office at 350-3600 Lysander Lane, Richmond, British Columbia. Pursuant to an initial public offering ("IPO") on February 6, 2018, the Company's shares became publicly traded on the Toronto Stock Exchange under the symbol "PL".

The Company is primarily involved in the manufacture and sale of wood pellets for both industrial electrical power generation and home heating consumption in North America, Asia and Europe. The Company operates facilities at various locations, including in the Provinces of British Columbia and Alberta in Canada, and in the State of Alabama in the United States ("US"). During 2018, the Company entered into the US market by acquiring a 70% interest in Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC") which holds 100% equity in the operating company Westervelt Pellet I, LLC ("WPI LLC") with a facility located in Alabama. The Company's newest facility in Smithers, British Columbia started commercial operations on December 29, 2018. On July 4, 2019, the Company entered into a limited partnership agreement with Tolko Industries Ltd. ("Tolko") to build a new industrial wood pellet production facility in Alberta (the "High Level Facility"). Pinnacle and Tolko each own 50% in the High Level Facility. On December 19, 2019, the Company entered into a limited partnership agreement with the Westervelt Company and Two Rivers Lumber Company to build a new industrial wood pellet production facility in the southeast United States (the "Demopolis Facility"). Pinnacle holds a 70% interest in the Demopolis Facility, while the Westervelt Company and Two Rivers Lumber Company each hold 20% and 10% respectively. The Company also owns and operates the Westview port facility at Prince Rupert, British Columbia for the storage, handling and loading of the Company's and third party's wood pellets.

Seasonality of Operations

Pinnacle's costs of production are impacted by seasonal weather variation. Costs of fuel for fibre drying in preparation for pelletization are higher in the winter months and can decrease production volumes. In summer, when less drying is required, costs decrease, and volumes are generally higher.

2. Basis of preparation

a) Statement of compliance and basis of measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issue by the Board of Directors on March 2, 2020.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial liabilities and derivative instruments which are stated at fair value with change in fair value recognized in net profit (loss).

The fiscal year or year referred to in the consolidated financial statements are the 52-week periods ended December 27, 2019 and December 28, 2018.

2. Basis of preparation (continued)

a) Statement of compliance and basis of measurement (continued)

Accounting standards adopted in 2019

IFRS 16 *Leases*

IFRS 16 *Leases* was issued in January 2016 by the International Accounting Standards Board ("IASB") as a replacement for IAS 17 *Leases* ("IAS 17") and was effective for annual periods beginning on or after January 1, 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset ("ROU asset") representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has elected to apply the modified retrospective approach upon early adoption at December 29, 2018, measuring the ROU asset at an amount equal to the lease liability, which resulted in no change to deficit. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

Significant accounting policy

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost (cost equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments), and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and instead accounts for the lease and non-lease components as a single lease component.

As a lessee

The Company leases many assets, including land, production equipment, Information Technology ("IT") equipment, rail cars and vehicles.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes ROU assets and lease liabilities for most leases. The Company has elected not to recognize ROU assets and lease liabilities for some leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Expressed in thousands of Canadian dollars unless otherwise stated)

2. Basis of preparation (continued)

a) *Statement of compliance and basis of measurement (continued)*

Transition

Previously, the Company classified property leases, which include office and production facilities, and rail car leases as operating leases under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at December 29, 2018. ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

On adoption, the Company elected to apply the following practical expedients and elections:

- IFRS 16 was only applied to contracts previously identified as leases. Contracts not identified as leases under IAS 17 and IFRIC 4 *Determining Whether an Arrangement contains a Lease* were not reassessed at the adoption date.
- ROU assets and lease liabilities were not recognized for leases with less than 12 months of remaining lease term, nor for low value leases for items. Associated lease payments were recognized as an expense on a straight-line basis over the lease term.
- Initial direct costs were excluded from the measurement of the ROU asset at the date of initial application.
- Hindsight was used when determining the lease term if the contract contained options to extend or terminate the lease.

The Company leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the ROU asset and the lease liability at December 29, 2018 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

On transition to IFRS 16, the Company recognized $36,803 of ROU assets and $36,803 of lease liabilities as at December 29, 2018. When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at December 28, 2018. The rate applied ranged between 6.280% to 6.591%, based on different characteristics of each of the leased liabilities. The impact is as noted below:

		December 29, 2018
Operating lease commitment at December 28, 2018	$	65,748
Recognition exemptions for variable lease payments		(14,413)
Recognition exemptions for service fees		(1,781)
Recognition exemptions for short-term and low-value leases		(1,463)
Discount using incremental borrowing rate at December 29, 2018		(11,288)
Discounted operating lease commitment under IFRS 16 using incremental borrowing rate at December 29, 2018	**$**	**36,803**

During the year ended December 27, 2019, the Company recognized $2,313 of interest costs from these leases.

(Expressed in thousands of Canadian dollars unless otherwise stated)

2. Basis of preparation (continued)

b) Basis of consolidation

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, its majority-owned subsidiaries and its ownerships in its equity investments as follows:

	Country of residence	Economic ownership	Voting %	Method of accounting
Houston Pellet Inc. ("HPI")	Canada	33%	33%	Equity
Houston Pellet Limited Partnership ("HPLP")	Canada	30%	30%	Equity
Lavington Pellet Inc. ("LPI")	Canada	75%	75%	Consolidated
Lavington Pellet Limited Partnership ("LPLP")	Canada	75%	75%	Consolidated
Smithers Pellet Inc. ("SPI")	Canada	70%	70%	Consolidated
Smithers Pellet Limited Partnership ("SPLP")	Canada	70%	70%	Consolidated
Pinnacle Renewable Holdings (USA) Inc. ("PRHUSA")	USA	100%	100%	Consolidated
Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC")	USA	70%	70%	Consolidated
Westervelt Pellets I, LLC ("WPI LLC")	USA	70%	70%	Consolidated
Northern Pellet Inc. ("NPI")	Canada	50%	50%	Proportionately Consolidated
Northern Pellet Limited Partnership ("NPLP")	Canada	50%	50%	Proportionately Consolidated

During the year, the Company expanded its operations by entering into a partnership agreement with Tolko Industries Ltd ("Tolko"). NPLP was created, with Pinnacle holding a 50% interest in the partnership through NPI, and Tolko holding the remaining 50%. NPLP has been accounted for as a joint operation (refer to Note 19) and therefore the Company has consolidated its 50% of assets and liabilities.

c) Functional currency

These consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency as it is the primary economic environment in which the Company operates. Certain of the Company's subsidiaries have a function currency of the U.S. dollar ("USD") and are translated into CAD at the end of each period for consolidation purposes.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, earnings and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

2. Basis of preparation (continued)

d) Use of estimates and judgments (continued)

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 7 – Goodwill: determination of appropriate cash generating units

Assumptions about estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending December 27, 2019 is included in the following notes:

Note 5 – measurement of cost and net realizable value of inventory: key fibre volume measurement assumptions;
Note 7 – impairment test of goodwill: key assumptions underlying recoverable amounts;
Note 12 – determination of the fair value of debt and equity components of convertible debentures on the basis of significant unobservable inputs up until the convertible debentures were converted into common shares;
Note 12 – determination of the fair value of common shares classified as liabilities on the basis of significant unobservable inputs up until the common shares were either repurchased or converted into the Company's common shares at the IPO date;
Note 11 – recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources;
Note 16 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;
Note 3(h) – Amortization rates for property, plant and equipment; and
Note 19 and Note 3(s) – Allocation of proceeds on acquisitions.

e) Accounting standards issued but not yet effective

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 27, 2019 and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. All accounting policies have been applied consistently by the Company, its subsidiaries and associates.

Certain comparative amounts in the consolidated statements of income (loss) have been reclassified to conform with the current year's presentation.

a) Subsidiaries

The Company's determination of its subsidiaries is based on its control of entities that are subject to consolidation and reflects its continuing power to determine their strategic operating, investing and financing policies without the co-operation of others, in a manner that would earn the Company the right and ability to obtain future economic benefits from these entities and exposes the Company to the related risks. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

b) Non-controlling interests

For non wholly owned controlled subsidiaries, the net assets attributable to the outside equity shareholders are presented as non-controlling interests in the equity section of the consolidated statement of financial position. Profit or loss for the period that is attributable to non-controlling interests is calculated based on the ownership of the minority shareholders in the subsidiary.

c) Investment in associates (equity accounted investees)

Associates are those entities in which the Company has significant influence, but does not control the strategic financing, investing and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for initially at cost and subsequently using the equity method, whereby the investment is adjusted for post-acquisition earnings and equity transactions, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation to fund the investee's operations or has made payments on behalf of the investee.

d) Transactions eliminated on consolidation

Inter-company balances and transactions as well as any unrealized income and expenses arising from inter-company transactions are eliminated in the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (continued)

e) *Foreign currency translation*

Foreign currency transactions:

Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at historic rates. Foreign currency differences arising on translation are recognized in net profit (loss).

Foreign operations:

Certain of the Company's subsidiaries have a functional currency of the USD. Revenues and expenses of such foreign operations are translated to Canadian dollars at the average rates for the period which approximate the transaction date. Assets and liabilities are translated into CAD at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in other comprehensive income and included in accumulated other comprehensive income in equity.

Foreign currency translation differences residing in accumulated other comprehensive income will be released to net profit (loss) upon the reduction of the net investment in foreign operations through the sale or substantial liquidation of an investment position. In the case of a partial disposal not resulting in a loss of control, foreign currency translation differences are reclassified from the accumulated other comprehensive income to the non-controlling interest in the foreign subsidiary.

Monetary inter-company receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in other comprehensive income and presented in the accumulated other comprehensive income in equity.

Hedge of net investment in a foreign operation:

Financial liabilities denominated in foreign currencies are from time to time designated as a hedge of the Company's net investments in foreign operations. Foreign currency differences arising on the revaluation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in foreign currency translation differences in other comprehensive income to the extent that the hedge is effective, and presented in the accumulated other comprehensive income in equity. To the extent that the hedge is ineffective, such differences are recognized in finance cost in net profit (loss). When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting, any accumulated unrealized foreign exchange differences remaining in the accumulated other comprehensive income and subsequent unrealized foreign exchange differences are recorded in finance cost in net profit (loss). When the hedged net investment is disposed of, the relevant amount in the accumulated other comprehensive income is reclassified to net profit (loss).

f) *Cash and cash equivalents*

Cash and cash equivalents include cash in bank accounts and deposits with original maturities of three months or less from the date of acquisition.

3. Significant accounting policies (continued)

g) Inventory

Inventories of fibre, finished wood pellets, supplies and spare parts are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes all direct costs incurred in production and conversion including raw materials, labour and direct overhead and other costs incurred in bringing the inventories to their existing condition and location. The cost of manufactured inventories includes production overhead based on normal operating capacity. Costs that do not contribute to bringing inventories to their present condition and location, such as storage and administration overhead, are excluded from the cost of inventories and expensed as incurred.

The Company estimates net realizable value as the amount inventories are expected to be sold for, less estimated costs for completion and costs necessary to make the sale. In determining net realizable value, factors such as obsolescence and damage, aging of, and future demand for, the inventory, selling prices, and contractual arrangements with customers are considered. A change to these assumptions could impact the inventory valuation and resulting impact on gross margins. Inventories are written down to net realizable value when their cost is not deemed to be recoverable. When circumstances that previously caused inventories to be written down below cost no longer exist, including when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

h) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated amortization and any impairment losses. Cost consists of expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets. Costs are capitalized when economic benefits associated with that asset are probable and cost can be measured reliably. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. All other repairs and maintenance costs are expensed as incurred.

Amortization is recognized over the estimated useful lives on a straight-line basis starting when the asset is available for use. Construction in progress is not subject to amortization until the assets are put into use. Leased assets are amortized over the shorter of their lease term and their useful lives, unless it is reasonably certain the Company will obtain ownership by the end of the lease term. Land is not amortized. Amortization is recorded over the following terms:

Asset	Term
Buildings and related assets	20 years
Production machinery and other equipment	3-20 years
Mobile equipment	5 years
Leasehold improvements	Shorter of the lease term and the useful life

When components of an asset have significantly different useful lives than the primary asset, the components are amortized separately. Residual values, useful lives and methods of amortization are reviewed annually and adjusted prospectively. Gains and losses on the disposal or retirement of property, plant and equipment are determined by comparing net proceeds from disposal with the carrying amount of the asset and are recognized in profit (loss).

3. Significant accounting policies (continued)

i) Leases

The Company does not enter into agreements which would require it to act as a lessor and therefore the policy describes the accounting for leases as a lessee only.

Effective December 29, 2018

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

PREI recognizes a right-of-use (“ROU”) asset and lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Any leasehold improvements are added to the related ROU asset.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the lesser of the end of the lease term or useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for re-measurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable or the Company’s incremental borrowing rate. The lease payments include fixed and variable payments, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as a result of a revision to the lease term, for example. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to Other income (expense) in net earnings otherwise.

The Company does not recognize ROU assets and lease liabilities for low value assets and short-term leases. Lease payments associated with these leases are expensed on a straight-line basis over the lease term.

Prior to December 29, 2018

Leases where the Company has assumed substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease commencement date at the lower of fair value of the leased asset and present value of the minimum lease payments. Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to its underlying nature.

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments under operating leases are recognized in the Company’s net profit (loss).

3. Significant accounting policies (continued)

j) Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of the acquired identifiable net assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less any impairment loss.

k) Intangible assets

Intangible assets are recorded at their fair values at the date of acquisition. For all limited life intangible assets, amortization is provided for on a straight-line basis over their estimated useful lives as follows:

Asset	Estimated useful life
Customer relationships	9 years
Supply agreements	9 years
Other	5 years

Residual values, useful lives and methods of amortization are reviewed periodically and adjusted prospectively.

l) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in net profit (loss). They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

m) Income taxes

Income tax expense comprises current and deferred income taxes. Tax is recognized in the consolidated statement of profit (loss), except to the extent that it relates to a business combination or items recognized directly in equity, in which case the tax effect is also recognized in equity.

Current income tax expense or recovery is based on the expected tax payable or receivable on the taxable income or loss using the enacted or substantively enacted tax rate applicable to that profit or loss.

Deferred income taxes are recorded using the asset and liability method of income tax allocation. Under this method, deferred income tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in the income tax rates is included in net profit (loss) in the period in which the rate change occurs.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available to utilize the tax losses, tax credit carry-forwards and deductible temporary differences.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity or on different tax entities, if there is intention to settle current tax liabilities and assets on a net basis, otherwise tax assets and liabilities will be realized simultaneously.

n) Provisions

A provision is a liability of uncertain timing or amount and is generally recognized when the Company has a present legal or constructive obligation as a result of a past significant event, it is probable that payment will be made to settle the obligation and the payment can be estimated reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. Significant accounting policies (continued)

o) Decommissioning liabilities

Legal or contractual obligations to retire tangible long-lived assets are recorded in the period in which they are incurred with a corresponding increase in asset value. These include assets leased under operating leases. The liability is accreted over the life of the asset to fair value and the increase in asset value is depreciated over the remaining useful life of the asset. Decommissioning liabilities are discounted at the risk-free rate in effect at the reporting date.

p) Revenue recognition

IFRS 15 *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services, whether at a point in time or over time.

Revenue from the sale of goods is measured based on the consideration specified in a contract with a customer and is recognized when a customer obtains control of the goods or services. The timing of transfer of control varies depending on the individual terms of the contract of sale. Amounts charged to customers for shipping and handling are recognized as revenue as services are provided and are recorded in costs and expenses.

Finished wood pellets

Revenue is recognized when control over the pellets is transferred to the customer. The timing of transfer of control is generally when the product is loaded on the shipping vessel.

Port services

Revenue is recognized for port storage and handling services as those services are provided.

q) Financial instruments

Non-derivative financial instruments

Financial assets:

The Company classifies its financial assets in the following categories: at fair value through profit or loss (“FVTPL”) or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependant on the Company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets at FVPTL: Financial assets at FVTPL are initially recorded at fair value and transactions costs are expensed in the statement of income/(loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of income/(loss) in the period in which they arise.

3. Significant accounting policies (continued)

q) Financial instruments (continued)

Financial assets at amortized cost: Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized costs are recognized in the income statement.

Financial liabilities:

Financial liabilities are initially recognized at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of a financial liability, or, where appropriate, a shorter period.

Impairment of financial assets at amortized cost:

The Company recognizes a loss allowances for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial assets is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. The Company monitors individual customer accounts receivable on a frequent basis and recognizes a credit loss on specific accounts when a default is identified. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Offsetting financial assets and liabilities:

Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settles on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments

The Company uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and interest rate risk. Foreign currency forward contracts may be used to limit exposure on USD sales, shipping costs and purchase of property, plant and equipment. Interest rate swaps may be used to fix a portion of the floating rate debt. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

3. Significant accounting policies (continued)

q) Financial instruments (continued)

The Company's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the consolidated statement of financial position at fair value, with changes in fair value (realized and unrealized) being recognized in net profit (loss). The fair value of the derivatives is determined with reference to period-end market trading prices for derivatives with comparable characteristics.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured through net profit (loss). Separable embedded derivatives are measured at fair value with changes recognized immediately through net profit (loss).

Compound financial instruments

The liability of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at its estimated fair value using an option valuation model. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The interest is recognized in the Company's profit (loss).

As at December 27, 2019, the Company does not have any outstanding compound financial instruments.

r) Finance costs

Finance costs consist of borrowing costs, unwinding of discounts on non-financial assets and liabilities, changes in the fair value of financial assets and liabilities at fair value through net profit (loss), impairment losses recognized on financial assets, foreign exchange gains (losses), and gains (losses) on derivatives. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net profit (loss) using the effective interest method. Qualifying assets are those that take a substantial period of time to be made ready for their intended use and generally those that are related to major developments or construction projects. Foreign exchange gains and losses are reported on a net basis.

3. Significant accounting policies (continued)

s) Business combinations

The Company uses the acquisition method to account for business combinations. All identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Longer term assets, which may include land, buildings and equipment, are independently appraised or estimated based on similar appraisals. When intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert develops the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Acquisition-related costs are expensed as incurred through net profit (loss).

t) Share capital

Common shares are classified as equity. If there are features within the common shares that create a liability upon triggering events outside of the Company's control, the common shares are presented as a liability.

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity. Otherwise, preferred shares are classified as liabilities and dividends recorded as interest expense.

Incremental costs directly attributable to the issue of share capital classified as equity and stock-based payments are recognized as a deduction from equity, net of any tax effects for those shares presented as equity, and as a finance cost for those shares presented as liabilities.

u) Stock-based compensation

The Company has a stock option plan as described in note 12. Compensation expense is recognized based on the fair value at the grant date over the vesting period. The expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

v) Earnings per share

The Company calculates basic net profit (loss) per share by dividing net profit (loss) attributable to owners by the weighted average number of common shares outstanding and calculates diluted net profit (loss) per share under the treasury stock method. Under the treasury stock share method, diluted net profit (loss) is calculated by considering the dilution that would occur if stock options or other convertible instruments were converted into shares.

(Expressed in thousands of Canadian dollars unless otherwise stated)

4. Accounts Receivable

As at	**December 27, 2019**	December 28, 2018
Trade accounts receivable	**10,848**	11,274
Other receivables	**24,895**	29,538
Amounts receivable from related parties (note 20)	**1,021**	690
	36,764	41,502

Included in other receivables is $ 13,224 (2018 - $23,085) of accrued sales for partially loaded vessels which were invoiced in the month subsequent to year end. Other receivables include an amount of $6,900 (December 28, 2018 - $ nil) for business interruption insurance recoverable related to the Entwistle incident (note 24).

5. Inventory

As at	**December 27, 2019**	December 28, 2018
Wood pellets	**23,068**	8,896
Fibre	**14,159**	7,575
Supplies and spare parts	**9,711**	8,060
	46,938	24,531

The provision related to wood pellets as at December 27, 2019 was $376 (2018 - $105). These adjustments are included in production costs in the statement of profit or loss.

Included in the above fibre inventory amounts were write downs of $181 (2018 - write-up of $110). These were recognized as an expense during the period and included in production costs.

(Expressed in thousands of Canadian dollars unless otherwise stated)

6. Property, plant and equipment ("PP&E")

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	ROU Assets	Total
Balance, beginning of fiscal year	**70,329**	**236,164**	**30,792**	-	**337,285**
Adoption of IFRS 16	-	-	-	36,803	36,803
Reclassification to ROU assets	-	(2,750)	-	2,750	-
Additions	-	-	70,257	5,080	75,337
Amortization	(4,940)	(24,283)	-	(8,182)	(37,405)
Disposals and retirements	(40)	(10,503)	(150)	-	(10,693)
Exchange rate movement	(145)	(1,997)	(4)	-	(2,146)
Asset class reclassification	(499)	499	-	-	-
Transfer from construction-in-progress	12,134	59,319	(71,453)	-	-
Balance, December 27, 2019	**76,839**	**256,449**	**29,442**	**36,451**	**399,181**
Cost	103,127	381,671	29,442	45,033	559,273
Accumulated amortization	(26,288)	(125,222)	-	(8,582)	(160,092)
Balance, December 27, 2019	**76,839**	**256,449**	**29,442**	**36,451**	**399,181**

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	ROU Assets	Total
Balance, beginning of fiscal year	**43,541**	**119,384**	**73,852**	-	**236,777**
Additions	-	961	64,716	-	65,677
Amortization	(3,942)	(17,884)	-	-	(21,826)
Disposals and retirements	(152)	(1,370)	-	-	(1,522)
Acquisition of Aliceville Facility	4,695	50,965	-	-	55,660
Exchange rate movement	213	2,306	-	-	2,519
Transfer from construction-in-progress	25,974	81,802	(107,776)	-	-
Balance, December 28, 2018	**70,329**	**236,164**	**30,792**	**-**	**337,285**
Cost	92,204	341,961	30,792	**-**	464,957
Accumulated amortization	(21,875)	(105,797)	-	-	(127,672)
Balance, December 28, 2018	**70,329**	**236,164**	**30,792**	**-**	**337,285**

Disposals and impairments include $9,417 of impairment to machinery and other equipment related to the impairment at the Entwistle plant. At December 27, 2019, PP&E includes $9,449 (December 28, 2018 - $nil) related to the construction-in-progress for the High Level Facility.

(Expressed in thousands of Canadian dollars unless otherwise stated)

6. Property, plant and equipment ("PP&E") – (continued)

Right-of-use Assets

The following table represents the Company's right-of-use assets by asset class:

	Land and buildings	Rail cars	Vehicles and Equipment	Total
Balance, December 28, 2018*	-	-	-	-
Adoption of IFRS 16	7,771	27,625	1,407	36,803
Reclassification from PPE	-	-	2,750	2,750
Additions	1,675	-	3,405	5,080
Amortization	(987)	(5,513)	(1,682)	(8,182)
Balance, December 27, 2019	**8,459**	**22,112**	**5,880**	**36,451**

7. Goodwill and intangible assets

	Goodwill	Customer relationships	Supply agreements	Other	Total
Balance, December 28, 2018*	97,482	2,239	2,277	1,681	103,679
Impairment of intangibles	-	-	-	(278)	(278)
Amortization	-	(1,663)	(1,209)	(338)	(3,210)
Balance, December 27, 2019	**97,482**	**576**	**1,068**	**1,065**	**100,191**
At December 27, 2019					
Cost	97,482	15,000	11,551	1,441	125,474
Accumulated amortization	-	(14,424)	(10,483)	(376)	(25,283)
Net book value at December 27, 2019	**97,482**	**576**	**1,068**	**1,065**	**100,191**

* *Goodwill initially recognized in the 2018 preliminary purchase price allocation of the acquisition of the Aliceville facility has been retrospectively adjusted as part of the final purchase price allocation for this business combination in accordance with IFRS 3 (see Note 19).*

The Company conducted its annual impairment testing in the fourth quarter. The recoverable amount of goodwill is determined based on the greater of the value in use and the fair value less costs to sell of each of the Company's cash generating units. Goodwill relates to the Company's Canadian operations. The Company concluded that no indicators of impairment existed at December 27, 2019. The Company also utilized the fair value less costs to sell approach and determined, based on the fair value of the Company, as evidenced by the Company's share price over the net book value of its equity at December 27, 2019, that there was sufficient head room to not perform any further analysis of fair value less costs to sell or a value in use determination for 2019.

(Expressed in thousands of Canadian dollars unless otherwise stated)

8. Investment in Houston Pellet Limited Partnership ("HPLP")

HPLP manufactures wood pellets for sale to an external customer and to the Company. The investment in HPLP has been accounted for under the equity basis. The following table summarizes the financial information of HPLP and reconciles the Company's carrying value and its share of net loss:

Investment in HPLP	**30%**	30%
As at	**December 27, 2019**	December 28, 2018
Current assets	**17,727**	19,943
Non-current assets	**7,300**	7,660
Current liabilities	**(5,466)**	(2,432)
Non-current liabilities	**(477)**	-
Net assets	**19,084**	25,171
Company's share of net assets	**5,725**	7,551
Goodwill	**1,823**	1,823
Investment in HPLP	**7,548**	9,374

	December 27, 2019	December 28, 2018
Revenue	**33,092**	32,858
Expense	**(29,410)**	(27,845)
Amortization	**(1,580)**	(1,423)
Loss on disposal of property and equipment	**(192)**	(63)
Net profit	**1,910**	3,527
Company's share of net profit	**573**	1,058

(Expressed in thousands of Canadian dollars unless otherwise stated)

9. Long-term debt

As at	**December 27, 2019**	December 28, 2018
Revolver loan	**19,200**	18,450
Term loan	**280,000**	194,000
Delayed draw	**20,000**	50,491
	319,200	262,941
Less:		
Revolver loan - current portion	**(19,200)**	(18,450)
Term loan - current portion	**(4,200)**	(9,500)
Deferred financing costs	**(3,186)**	(2,566)
	292,614	232,425

Aggregate minimum payments for each of the next five fiscal years for the long-term debt are as follows:

	Revolver loan	**Term loan**	**Delayed draw**	**Total**
2020	19,200	4,200	-	23,400
2021	-	14,000	886	14,886
2022	-	25,200	1,664	26,864
2023	-	28,000	1,681	29,681
2024		208,600	15,769	224,369
Total	**19,200**	**280,000**	**20,000**	**319,200**

As at December 28, 2018, the Company's senior secured debt provided for up to a $50,000 revolving operating line, a $200,000 term loan and a $130,000 delayed draw term loan. On June 14, 2019, the Company amended its senior secured debt, which now provides up to a $65,000 revolving operating line, a $280,000 term loan, and a $185,000 delayed draw term loan (the "Amended Facility"). The Amended Facility has extended the maturity date from December 13, 2022 to June 14, 2024.

Advances under the Amended Facility are available as Canadian dollar Prime-Based Loans, Banker's Acceptances ("BA") from the BA Lenders in Canadian dollars, BA Equivalent Loans from the Non-BA Lenders in Canadian dollars, US dollar Base Rate Loans, and LIBOR Loans in US dollars. Interest accrues daily at the applicable Bank Prime, BA, US Base or LIBOR rate plus a margin. The margin varies based on the ratio of Senior Debt to Adjusted EBITDA with a minimum margin of 1.50% and 2.50% from Prime/US Base and BA/LIBOR loans, respectively, and maximum margin of 3.00% and 4.00%, respectively.

At December 27, 2019, the $280,000 term loan was in a CAD BA loan at 5.45% (2018: CAD BA loan at 5.03%) and the $19,200 revolver loan was a CAD Prime loan at 6.95% (2018: CAD Prime loan at 5.70%). At December 27, 2019 the $20,000 delayed draw was in a CAD Prime loan at 6.95% (2018: USD $37,100 BA loan at 8.00%).

At December 27, 2019, the Company had issued letters of credit totaling $970 (December 28, 2018 - $1,438).

EBITDA and Adjusted EBITDA are defined in the Amended Facility agreement and used in the calculation of debt covenants and interest rate margins. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The Amended Facility agreement provides for calculation of the debt covenants prior to the application of IFRS 16. The NMTC Debt is not included in the calculation of Total Funded Debt (as defined in the Amended Facility agreement), as it is indemnified by Westervelt and the Company records a NMTC Receivable from Westervelt of an equal amount. As at December 27, 2019 and December 28, 2018, the Company was in compliance with all debt covenants.
The debt is secured by a first-ranking security interest on all present and after-acquired assets of the Company.

(Expressed in thousands of Canadian dollars unless otherwise stated)

10. New Market Tax Credit Debt

As at	**December 27, 2019**	December 28, 2018
NMTC loan	**12,774**	86,392
	12,774	86,392
Less:		
current portion	**(12,774)**	(1,515)
	-	84,877

In 2012 and 2013, WPI LLC received approximately USD $53,000 in net proceeds from financing agreements related to capital expenditures for the Aliceville Facility. This financing arrangement was designed to qualify under the U.S. federal New Markets Tax Credit ("NMTC") program, and was structured with third party financial institutions associated with a U.S. Bank, an investment fund, community development entities majority owned by the investment fund, and a U.S. municipal agency (the "NMTC Investors"). Through this transaction, WPI LLC secured low interest financing from the investment fund.

This transaction also includes the potential for future debt forgiveness, as it contains a put/call feature whereby, at the end of a seven-year compliance period, WPI LLC and its beneficial owners are entitled to repurchase the NMTC Investors' interest in the investment fund. The value attributable to the put price is nominal. Consequently, if exercised, the put could result in the forgiveness of the NMTC Investors' interest in the investment fund.

The NMTC Investors are subject to 100% recapture of the credits they receive under the NMTC program for a period of seven years as provided in the U.S. Internal Revenue Code and applicable U.S. Treasury regulations. WPI LLC is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance with applicable requirements could result in the NMTC Investors' projected tax benefits not being realised and, therefore, require WPI LLC to indemnify the NMTC Investor for any loss or recapture of credit under the NMTC program related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

Pursuant to an indemnity agreement entered into as part of the Company's acquisition of interest in the Aliceville Facility, Westervelt has guaranteed WPI LLC's NMTC debt by providing a capital contribution to PWRH LLC of an equal and offsetting amount to the NMTC debt and associated interest payments accrued at the time of the Company's acquisition of interest in PWRH LLC. The NMTC debt is not included in the calculation of Total Funded Debt for bank covenant calculations as it is indemnified by The Westervelt Company ("TWC") and the Company carries the NMTC receivable from TWC of an equal amount. During the fiscal year ended December 27, 2019, USD $53,730 of this receivable and corresponding NMTC debt was settled through a non-cash capital contribution to WPI. This represents all of the federal portion of the NMTC debt and reduces each of the amounts payable and receivable against the NMTC debt. As at December 27, 2019, WPI LLC has outstanding NMTC debt of approximately USD $9,750 (December 28, 2018 – USD $63,000).

Pursuant to the put/call feature of the NMTC arrangement, WPI LLC intends to purchase the NMTC Investors' interest in the investment fund at the end of the seven-year compliance period, resulting in the forgiveness of the NMTC debt. On January 23, 2020, USD $9,750 of NMTC debt was repaid by WPI LLC. This represents all of the state portion of the NMTC debt and reduces each of the amounts payable and receivable against the NMTC debt.

(Expressed in thousands of Canadian dollars unless otherwise stated)

11. Other long-term liabilities

	December 27, 2019	December 28, 2018
Restricted share unit liability	**26**	-
Decommissioning liabilities	**2,436**	2,101
Other	**-**	2,233
	2,462	4,334

The Company has certain decommissioning liabilities related to the operations of the Westview Port, the plants at Lavington, Armstrong, and Williams Lake and the use of rail cars.

As at	December 28, 2018	Change in discounted amount	**December 27, 2019**
Plants	701	152	**853**
Port Facility	1,118	175	**1,293**
Rail cars	282	8	**290**
Total decommissioning liabilities	2,101	335	**2,436**

Plants

The construction and operation of the Lavington plant requires a provision to be set up for the eventual demolition and removal of the plant to restore the operating site to its original condition in accordance with the land lease agreement. The initial term of the land lease expires on December 31, 2019 and renews automatically for an indefinite number of five-year periods until terminated. Due to the long-term nature of the liability, there is significant uncertainty regarding eventual costs required to restore the site to its original condition and a $700 decommissioning cost was provided as management's best estimate. The decommissioning cost was discounted at 1.66% (2018 – 2.18%) which is the Government of Canada long-term bond yield risk-free rate. In addition, provisions have been provided for personal property and fixtures removal for the plants at Armstrong and Williams Lake at the end of their lease terms in accordance with the Company's lease agreements.

Port facility

In accordance with the associated lease agreement with the Prince Rupert Port Authority, the Company has an obligation to dismantle certain aspects of the Westview port facility at the end of the lease term. The lease term is 21 years ending September 30, 2033, with an option to extend for 10 years. The Company included a provision for the dismantling costs of $1,200 which is management's best estimate. The discount rate of 1.66% (2018 – 2.18%) was used for decommissioning cost, which is the Government of Canada long-term bond yield risk-free rate.

Rail cars

Rail cars are leased under various agreements which require the rail cars to be restored to their original condition at the end of the lease term and prior to their return to the lessor.

12. Shareholders' equity

As at December 27, 2019, the Company's authorized share capital consisted of the following:

- Unlimited common participating, voting shares, without par value; and,
- Unlimited preferred participating, voting shares, without par value.

On March 14, 2019, the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at March 5, 2019.

On May 28, 2019, the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at May 17, 2019.

On September 5, 2019, the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at August 23, 2019.

On December 6, 2019, the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at November 22, 2019.

Stock-based compensation

The Company has a legacy stock option plan (the "Legacy Plan") pursuant to which it has granted stock options to directors and employees of the Company. Concurrent with the Company's reorganization of its share capital and the closing of the IPO, the Company amended and restated the Legacy Plan in its entirety to comply with public company provisions as required by the Toronto Stock Exchange. In addition, in connection with the IPO, the Company adopted an Omnibus Long-term Incentive Plan (the "LTIP") to facilitate the granting of options and restricted share units ("RSUs") to certain of the Company's directors, executive officers, employees and consultants.

a) Legacy Plan

Prior to the IPO, the Company had granted options to acquire Class D common shares at a price not less than the market value of the shares on the day of the grant and for a term not exceeding 10 years. Options granted vest at a rate of 20% per year from the date of grant.

Concurrent with the IPO and as a result of the amendment of the Legacy Plan, options to acquire Class D common shares were exchanged on an approximately one-to-0.3404 basis for options exercisable to acquire common shares at a post-amendment exercise price such that the in-the-money value of such options remain unchanged (the "Amended Options").

The Amended Options are designated as replacement awards. As a result of the amendment, the Company recognized $66 in stock-based compensation expense for the fiscal year ended December 27, 2019 (2018 - $498), which represents the incremental fair value of the vested portion of the replacement awards.

Following completion of the IPO, no additional awards are granted under the Legacy Plan.

(Expressed in thousands of Canadian dollars unless otherwise stated)

12. Shareholders' equity (continued)

a) Legacy Plan (continued)

Details of options granted under the Legacy Plan and outstanding are as follows:

	December 27, 2019		December 28, 2018	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**1,594,491**	**8.13**	2,715,376	6.63
Granted	**-**	**-**	-	-
Exercised	**(51,094)**	**6.48**	(1,120,885)	6.48
Forfeited / cancelled / expired	**-**	**-**	-	-
Outstanding, end of year	**1,543,397**	**8.18**	1,594,491	8.13

For the fiscal year ended December 27, 2019, a total of $342 (2018- $1,216) in stock-based compensation was recognized in relation to the Legacy Plan. Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

b) Long-term Incentive Plan ("LTIP")

In connection with the IPO, the Company adopted the LTIP pursuant to which it can grant awards to directors, executive officers, employees and consultants. Awards are granted in the form of options, which represent the right to acquire common shares at certain exercise prices, and RSUs, which represent the right to receive common shares or cash.

i. Options

For the fiscal year ended December 27, 2019, the Company granted 452,500 options which vest annually on the anniversary of the grant date over a period of three years. These options expire 10 years from the grant date.

For the fiscal year ended December 28, 2018, the Company granted 150,000 options vesting over a period of three to five years.

The fair value of the options on grant date is estimated using a Black-Scholes option pricing model with the following assumptions:

	2019	2018
Dividend yield	**5.33%**	5.33%
Expected volatility	**31.82%**	33.11%
Risk-free interest rate	**1.17% to 1.87%**	1.96% to 2.43%
Expected life	**10 years from grant date**	10 years from grant date
Exercise price	**$7.72 to $11.78**	$ 11.91 to $ 16.21

(Expressed in thousands of Canadian dollars unless otherwise stated)

12. Shareholders' equity – (continued)

b) Long-term Incentive Plan ("LTIP") (continued)

Details of options granted under the LTIP and outstanding are as follows:

	December 27, 2019		December 28, 2018	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**150,000**	**14.53**	-	-
Granted	**452,500**	**9.61**	150,000	14.53
Exercised	**-**	**-**	-	-
Forfeited / cancelled / expired	**-**	**-**	-	-
Outstanding, end of year	**602,500**	**10.83**	150,000	14.53

For the fiscal year ended December 27, 2019, a total of $483 of stock-based compensation expense (2018 - $107) in relation to options granted under the LTIP was included in selling, general and administration expenses.

ii. Restricted share units

For the fiscal year ended December 27, 2019, the Company granted 9,081 RSUs, which vest annually on the anniversary of the grant date over a period of three years. These RSUs are to be settled no later than December 31 of the calendar year which is three years from the vesting date.

For the fiscal year ended December 28, 2018, the Company granted 271,921 RSUs out of which 259,356 RSUs were vested immediately upon grant.

As the RSUs can be settled in either common shares or cash at the option of the RSU holder, the RSUs represent a compound award with liability and equity components. The fair value of the liability component was determined to approximate the fair value of the whole RSU, with no residual value to be assigned to the equity component.

For the vested portion of RSUs, the fair value of the liability component at period-end is estimated based on the market price of the Company's common shares. For the unvested portion of RSUs, the fair value of the liability component at period-end is estimated using a Black-Scholes option pricing model with the following assumptions:

	2019	2018
Dividend yield	**6.01%**	5.33%
Expected volatility	**46.10%**	33.11%
Risk-free interest rate	**1.61% to 1.64%**	1.88% to 1.92%
Expected life	**3.01 to 6.01 years**	4.01 to 6.01 years
Exercise price	**$nil**	$nil

(Expressed in thousands of Canadian dollars unless otherwise stated)

12. Shareholders' equity – continued

b) Long-term Incentive Plan ("LTIP") (continued)

Details of RSUs granted under the Long-term Incentive Plan and outstanding are as follows:

	December 27, 2019	December 28, 2018
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	**271,921**	-
Granted	**9,081**	271,921
Settled	**(263,545)**	-
Outstanding, end of period	**17,457**	271,921

For the fiscal year ended December 27, 2019, stock-based compensation expense in relation to RSU's granted under the LTIP was $195 (December 28, 2018- $4,266) and was included in selling, general and administration expenses.

(Expressed in thousands of Canadian dollars unless otherwise stated)

13. Non-controlling Interests

The following table summarizes the non-controlling financial information relating to non-controlling interest before inter-company eliminations:

LPLP	**25%**	25%
As at	**December 27, 2019**	December 28, 2018
Current assets	**9,885**	9,652
Non-current assets	**35,791**	38,176
Current liabilities	**(5,231)**	(3,631)
Non-current liabilities	**(1,003)**	(852)
Net assets	**39,442**	43,345
Net assets attributable to NCI	**9,861**	10,836

SPLP	**30%**	30%
As at	**December 27, 2019**	December 28, 2018
Current assets	**6,324**	4,868
Non-current assets	**30,076**	29,418
Current liabilities	**(3,029)**	(6,857)
Non-current liabilities	**(338)**	
Net assets	**33,033**	27,429
Net assets attributable to NCI	**9,910**	8,229

PWRH LLC	**30%**	30%
As at	**December 27, 2019**	December 28, 2018
Current assets	**34,627**	22,849
Non-current assets	**66,719**	142,458
Current liabilities	**(16,813)**	(8,454)
Non-current liabilities	**(47)**	(84,877)
Net assets	**84,486**	71,976
Net assets attributable to NCI	**25,346**	21,593
Unrealized gain (loss) on foreign exchange	**347**	(959)
Net assets attributable to NCI	**25,693**	20,634
Net assets attributable to NCI (USD)	**19,346**	15,866

Total net assets attributable to NCI	**45,464**	39,699

(Expressed in thousands of Canadian dollars unless otherwise stated)

13. Non-controlling Interests (continued)

LPLP	**December 27, 2019**	December 28, 2018
Revenue	**48,686**	48,536
Net profit	**497**	2,951
Net profit allocated to NCI	**124**	738

SPLP	**December 27, 2019**	December 28, 2018
Revenue	**17,902**	-
Net loss	**(873)**	(114)
Net loss allocated to NCI	**(262)**	(34)

PWRH LLC	**December 27, 2019**	December 28, 2018
Revenue	**45,316**	13,251
Net profit	**3,236**	389
Net profit allocated to NCI	**971**	117
Net profit allocated to NCI (USD)	**894**	108

Total net profit (loss) allocated to NCI	**833**	821

14. Selling, general and administrative costs

The components of selling, general and administrative costs are as follows:

	December 27, 2019	December 28, 2018
Salaries and employee costs	**11,051**	9,314
Travel and related expenses	**2,069**	1,824
Professional fees	**1,878**	3,185
Stock based compensation	**1,020**	4,266
Communications and IT expenses	**875**	1,072
Legal and insurance fees	**759**	2,304
Other expenses	**701**	394
Occupancy costs	**142**	430
Total	**18,495**	22,789

(Expressed in thousands of Canadian dollars unless otherwise stated)

15. Finance costs

	December 27, 2019	December 28, 2018
Interest on revolver loan, term debt and delayed draw loan	**16,308**	8,851
Fair value (gain)/loss on derivatives	**2,769**	(5,613)
Realized (gain)/loss on derivatives	**(1,926)**	(597)
Unrealized (gain)/loss on foreign exchange	**1,465**	(1,835)
Realized gain on foreign exchange	**(263)**	360
Amortization of deferred financing fees	**1,517**	652
Interest on lease liabilities	**2,313**	-
Other	**1,995**	1,137
	24,178	2,955

(Expressed in thousands of Canadian dollars unless otherwise stated)

16. Income taxes

The reconciliation of statutory income tax rates to the Company's effective tax rate is as follows:

Fiscal year ended	**December 27, 2019**	December 28, 2018
Income tax recovery (expense) at statutory rate of 27.00% (2018 – 27.00%)	**3,315**	348
(Increase) decrease related to		
Permanent differences and other	**(1,012)**	1,055
Entities with different tax rates and foreign rate adjustments	**2**	12
	2,305	1,415
Classified as		
Current	**-**	-
Deferred	**2,305**	1,415
Income tax recovery (expense)	**2,305**	1,415

The Company's deferred income tax assets and liabilities are comprised of the following:

	December 27, 2019	December 28, 2018
Deferred tax assets:		
Non-capital losses	**50,412**	23,858
Provisions	**10,224**	1,156
Transaction costs	**1,938**	2,118
Other	**1,604**	1,264
	64,178	28,396
Deferred tax liabilities:		
Property, plant and equipment	**(59,115)**	(24,490)
Intangible assets	**(556)**	(1,512)
Deferred financing costs	**(860)**	(693)
Other	**(1,199)**	(1,552)
	(61,730)	(28,247)
Net deferred tax asset/(liability)	**2,448**	149

At December 27, 2019, the Company has $150,011 (2018 - $87,713) of unused Canadian non-capital loss carry forwards expiring between 2032 and 2039 to reduce future Canadian taxable income, and $37,916 (2018 – $182) of unused U.S. federal net operating loss carryforwards to reduce future U.S. taxable income.

(Expressed in thousands of Canadian dollars unless otherwise stated)

17. Earnings per share

Net profit (loss) per share has been calculated as follows:

	December 27, 2019	December 28, 2018
Net profit (loss) for the year attributable to owners	**(10,807)**	1,864
Cumulative preferred dividends	**-**	(104)
	(10,807)	1,760
Net profit (loss) per share (basic and diluted)	**(0.33)**	0.05
Weighted average of number of shares outstanding (thousands)	**33,238**	32,974

For the year ended December 27, 2019, the Company incurred a net loss attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive. For the year ended December 28, 2018, there were no dilutive instruments and the weighted average number of shares has been adjusted for the pre-closing capital changes.

18. Supplemental cash flow information

	December 27, 2019	December 28, 2018
Accounts receivable	**11,637**	7,098
Inventory	**(22,588)**	447
Other current assets	**(6,606)**	443
Accounts payable and accrued liabilities	**(3,902)**	13,033
Other current liabilities	**1,447**	(14,004)
Net change in non-cash operating working capital	**(20,012)**	7,017

	December 27, 2019	December 28, 2018
PP&E additions during the year	**70,257**	65,677
PP&E additions from prior year paid during the year	**2,354**	9,250
PP&E additions in accounts payable & other liabilities	**(11,579)**	(1,796)
Purchase of PP&E	**61,032**	73,131

The amortization expense as noted in the statement of cash flows includes amortization expense recharged to Houston Pellet Limited Partnership and included as a reduction of equity earnings in the statement of profit/(loss).

Total cash outflow for finance leases in 2019 was $9,862. Cash outflows for exempt variable lease payments, exempt lease service fees, short term and low value leases totaled $1,074, $1,087 and $59 respectively.

(Expressed in thousands of Canadian dollars unless otherwise stated)

19. Acquisitions

Aliceville Facility

On October 15, 2018, the Company closed the acquisition of interest in the Aliceville Facility from The Westervelt Company ("Westervelt"), a diversified land resources company, at a purchase price of approximately US$36.5 million. The Company entered into US market with this acquisition. The Aliceville Facility is wholly owned by Westervelt Pellets I, LLC ("WPI LLC"), a wholly owned subsidiary of Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC"). PWRH LLC is owned 70% by Pinnacle through Pinnacle Renewable Holdings (USA) Inc. ("PRHUSA") and 30% by Westervelt.

At the acquisition date, the Company paid US$37.3 million, and a working capital true-up refund of US$0.5 million was received in December 2018. The Company funded the acquisition through a draw on its Facility and cash on hand. The acquisition was accounted for in accordance with IFRS 3, *Business Combinations*.

During the measurement period (one year after acquisition date), a fair value assessment of assets and liabilities acquired was performed by the Company and an independent external valuator, the outcome of which, resulted in the restatement of the preliminary fair value of identifiable assets acquired and liabilities assumed at acquisition. The Company concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate. As a result, the Company reduced preliminary goodwill recognized to zero, increased the fair value of property, plant and equipment by US$4.78 million (CAD$6.21 million) and recognized additional liabilities of US$0.16 million (CAD$0.21 million).

Provisional purchase price allocation amounts recognized in the 2018 annual consolidated financial statements have been retrospectively adjusted to reflect the final fair value of these assets and liabilities at acquisition date.

The below purchase price allocation for the transaction is final:

	Amount in USD	**Amount in CAD**
Cash Consideration (net of cash acquired)	37,021	48,202
Working capital adjustment	(487)	(633)
Total Consideration	**36,535**	**47,569**
Identifiable assets acquired and liabilities assumed		
Non-cash working capital, net	9,543	12,425
Property, plant and equipment	42,750	55,660
Total identifiable assets	52,293	68,085
Non-controlling interest	(15,758)	(20,516)
Total	**36,535**	**47,569**

(Expressed in thousands of Canadian dollars unless otherwise stated)

19. Acquisitions- continued

Joint operation

On July 4, 2019, the Company entered into a limited partnership agreement with Tolko Industries Ltd. ("Tolko") to build a new industrial wood pellet production facility in Alberta (the "High Level Facility") through a separate legal entity Northern Pellet Inc ("NPLP"). Pinnacle and Tolko each own 50% of NPLP. Construction on the High Level Facility began during the current quarter on land owned by Tolko. Initial wood pellet production at the High Level Facility is expected to commence in the fourth quarter of 2020. The capital cost of the High Level Facility is expected to be approximately $58,500, with 50% funded by the Company and 50% by Tolko.

NPLP has been classified as a joint operation for accounting purposes. This is on the basis that the Company will be purchasing substantially all of the output produced by the facility over the life of the arrangement and the only source of cash flows contributing to the continuity of the operations of NPLP will be originating from the partners. Therefore, the Company's share of NPLP's assets and liabilities have been consolidated into these financial statements.

20. Related parties

Significant shareholder

Prior to the IPO, the Company was controlled by ONCAP, who effectively owned 60% of the Company. ONCAP is ultimately controlled by Onex Corporation. During the year ended December 28, 2018, the Company paid a monitoring fee to ONCAP of $50. The monitoring fee was discontinued upon the closing of the IPO. Based on information provided by ONCAP, as at December 27, 2019, ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31.3% (as at December 28, 2018 – 31.3%) of the issued and outstanding common shares of the Company.

Key management personnel compensation

The Company's key management consists of the Board members, Chief Executive Officer, Chief Financial Officer and Chief Operating Officer and Senior Vice President of Sales and Logistics.

Aggregate compensation of the Company's key management was as follows:

Fiscal year ended	**December 27, 2019**	December 28, 2018
Base compensation and benefits	**1,573**	1,552
Board member fee	**180**	181
Annual bonus	**255**	449
Stock-based compensation	**670**	4,011
	2,678	6,193

(Expressed in thousands of Canadian dollars unless otherwise stated)

20. Related parties- (continued)

HPLP

HPLP is owned 30% by the Company and 70% by non-related third parties. The Company purchases industrial wood pellets from HPLP and earns revenue from sales of fibre and distribution fees. The Company manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Company and the non-related third parties.

	December 27, 2019	December 28, 2018
Purchases	**33,111**	30,172
Revenue	**3,844**	5,564
Management fee	**575**	650

As at	**December 27, 2019**	December 28, 2018
Amounts receivable	**1,021**	690
Amounts payable	**5,281**	2,144

The amounts receivable and payable to the Company are unsecured and non-interest bearing.

LPLP

LPLP is owned 75% by the Company and 25% by a non-related third party. The Company purchases industrial wood pellets from LPLP and earns revenue from sales of fibre at negotiated prices between the Company and the non-related third party. The Company manages and administers the business affairs of LPLP.

	December 27, 2019	December 28, 2018
Purchases	**48,686**	48,536
Revenue	**16**	223

As at	**December 27, 2019**	December 28, 2018
Amounts receivable	**153**	779
Amounts payable	**6,575**	5,830

The amounts receivable and payable to the Company are unsecured and non-interest bearing.

SPLP

On October 4, 2017, the Company entered into a limited partnership with a non-related third party for the acquisition and development of a wood pellet facility. SPLP is owned 70% by the Company and 30% by a non-related third party.

	December 27, 2019	December 28, 2018
Purchases	**17,902**	-
Revenue	**46**	-
As at	**December 27, 2019**	December 28, 2018
Amounts receivable	**254**	624
Amounts payable	**2,409**	740

The amounts receivable and payable to the Company are unsecured and non-interest bearing.

(Expressed in thousands of Canadian dollars unless otherwise stated)

20. Related parties (continued)

WPI LLC

On October 15, 2018, the Company entered into a partnership with a non-related third party for the operation of a wood pellet facility. WPI LLC is wholly owned by PWRH LLC which is owned 70% by the Company and 30% by a non-related third party.

Amounts in USD	**December 27, 2019**	December 28, 2018
Management fee	**1,496**	399

As at (amounts in USD)	**December 27, 2019**		December 28, 2018
Amounts receivable	**61**	$	662

The amounts receivable and payable to the Company are unsecured and non-interest bearing.

NPLP

On July 4, 2019, the Company entered into a limited partnership with a non-related third party to build a new industrial wood pellet production facility in Alberta. NPLP is owned 50% by the Company and 50% by a non-related third party.

As at	**December 27, 2019**	December 28, 2018
Amounts receivable	**66**	-

The amounts receivable and payable to the Company are unsecured and non-interest bearing.

(Expressed in thousands of Canadian dollars unless otherwise stated)

21. Financial instruments

21.1 Classification and measurement:

The following table summarizes information regarding the classification and carrying values of the Company's financial instruments:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	December 27, 2019
Financial Assets				
Cash and cash equivalents	11,267	-	-	11,267
Accounts receivable	36,764	-	-	36,764
Receivable against NMTC	12,774	-	-	12,774
Derivative financial instruments included in other current assets	-	-	1,332	1,332
Derivative financial instruments included in other long-term assets	-	-	1,038	1,038
Financial Liabilities				
Accounts payable and accrued liabilities	-	(51,183)	-	(51,183)
Loan facilities	-	(319,200)	-	(319,200)
Lease liabilities	-	(36,975)	-	(36,975)
NMTC debt	-	(12,774)	-	(12,774)
Other long-term liabilities	-	(2,462)	-	(2,462)

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	December 28, 2018
Financial Assets				
Cash and cash equivalents	18,028	-	-	18,028
Accounts receivable	41,502	-	-	41,502
Receivable against NMTC	86,392	-	-	86,392
Derivative financial instruments included in other current assets	-	-	2,690	2,690
Derivative financial instruments included in other long-term assets	-	-	2,449	2,449
Financial Liabilities				
Accounts payable and accrued liabilities	-	(43,745)	-	(43,745)
Loan facilities	-	(262,941)	-	(262,941)
NMTC debt	-	(86,392)	-	(86,392)
Other long-term liabilities	-	(4,335)	-	(4,335)

(Expressed in thousands of Canadian dollars unless otherwise stated)

21. Financial instruments - (continued)

21.2 Fair value

The following fair value measurement hierarchy is used for financial instruments that are measured in the Consolidated Statement of Financial Position at fair value:

- Level 1 - quoted process (unadjusted) in active markets for identical assets and liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

Specific valuation techniques used to value financial instruments include:

- For interest rate swaps – the present value of the estimated future cash flows based on observable yield curves
- For foreign currency forwards – present value of future cash flows based on the forward exchange rates at the balance sheet date

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and other liabilities approximates their fair value due to the relatively short-term maturity of these financial instruments. The carrying value of bank debt is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

There were no transfers between levels of the fair value hierarchy in the year ended December 27, 2019. The following table summarizes the Company's financial instruments measured at fair value at December 27, 2019 and December 28, 2018, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

	Fair value hierarchy level	**December 27, 2019**	December 28, 2018
Derivative financial instruments assets (liability)			
USD forward contracts	**Level 1**	**$ 1,333**	$ 5,139
Interest rate swaps	**Level 1**	**1,037**	-
		$ 2,370	$ 5,139

For the fiscal year ended December 27, 2019, the Company recognized a loss of $843 (2018 - $6,210 gain) on its derivative financial instruments in its net profit (loss).

The Company does not designate its foreign exchange contracts or interest rate swaps as hedging instruments under a fair value hedge accounting model. Therefore, a change in foreign exchange rates and interest rates at the reporting date will affect profit or loss.

(Expressed in thousands of Canadian dollars unless otherwise stated)

22. Financial Risk and Capital Management

The Company is exposed to a number of risks as a result of holding financial instruments including credit risk, liquidity risk and market risk. The Company's Risk Management Committee manages risk related to counterparty credit risk and market risk such as foreign exchange.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash and accounts receivable. The Company managers its credit risk on cash by using major Canadian chartered banks for all cash deposits. The cash balance at December 27, 2019 is $11,267 (2018 - $18,028).

The Company manages its credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over $5,000. The significant majority of the Company's sales are contracted with large utility customers on which no impairment loss has been recognized during the fiscal years ended 2019 and 2018. The receivable balances at December 27, 2019 total $49,419 (2018 - $43,017).

Receivables include $12,774 (2018 – $1,515) of unsecured receivables from TWC. However, the Company has received indemnification against all payments, liabilities and economic loss arising from the NMTC debt from TWC.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its respective obligations as they come due. The Company manages liquidity requirements through frequent monitoring of cash inflows and outflows, preparation of regular cash flow forecasting and its available credit facilities.

The contractual maturities of non-derivative financial assets and liabilities at December 27, 2019 were as follows:

	Carrying amount	Contractual cash flows	Current	Between 2 and 5 years	More than 5 years
Revolver loan *	19,200	19,200	19,200	-	-
Accounts payable and accrued liabilities	51,183	51,183	51,183	-	-
Accounts receivable	36,764	36,761	36,761	-	-
Cash	11,267	11,267	11,267	-	-
Term loan	280,000	280,000	4,200	275,800	-
Delayed draw loan	20,000	20,000	-	20,000	-
Lease liabilities	36,975	57,296	10,304	30,041	16,951

*Classified as less than 1 year as due on demand; however, maturity of the Revolver loan is December 13, 2022.

Management expects to finance its operations and cash flows from its current available resources and without further support from its shareholders and lenders. However, to the extent that additional cash resources are required due to unforeseen circumstances, management anticipates support from its shareholders and lenders, although there can be no guarantees.

(Expressed in thousands of Canadian dollars unless otherwise stated)

22. Financial Risk and Capital Management (continued)

Market risk

Market risk is that the change in market prices such as foreign exchange rates will affect the Company's net profit (loss) and that the future cash flows of a financial instrument will fluctuate due to changes in market prices.

Foreign currency

The Company's functional and reporting currency is the CAD. The Company's sales, operating and capital expenditures are primarily denominated and settled in CAD. The Company has exposure to the USD on its shipping costs, rail car leases, some capital purchases, and through operation of the Aliceville Facility in the United States which uses USD as its functional currency. The Company mitigates its exposure to the USD on its shipping costs by invoicing the shipping portion in USD and with a contract with its major shipping provider with a fixed USD to CAD exchange rate. The remaining exposure is mitigated by entering into a series of USD forward contracts matching the amount and timing of the estimated USD expenditures.

These contracts are simultaneously settled on a gross tax basis as the Company exchanges USD into CAD at predetermined rates. The Company does not apply hedge accounting to its USD forward contracts. The outstanding notional amounts of the USD forward contracts and their contractual maturities are as follows:

Particulars	Notional amount	Average forward rate	Less than 1 year	Greater than 1 year	Fair value asset (liability)
As at December 27, 2019					
USD Forward Contracts	**25,975**	**1.2556**	**25,800**	**175**	**1,333**
As at December 28, 2018					
USD Forward Contracts	51,775	1.2556	25,800	25,975	5,139

Interest rate

The Company is exposed to interest rate risk on long-term debt. The Company entered into two interest rate contracts which effectively swap floating interest rates to fixed rates on a notional amount of $50,000 each, totaling $100,000, effective June 28, 2019, in order to hedge the variability in cash flows attributable to movements in interest rates. The interest rate swaps mature on March 31, 2024.

(Expressed in thousands of Canadian dollars unless otherwise stated)

22. Financial Risk and Capital Management - (continued)

Capital management

The Company's objective when managing its capital structure is to maintain a strong financial position and to provide returns with sufficient liquidity to undertake further growth for the benefit of its shareholders.
The Company's capital is comprised of long-term obligations and equity as outlined below:

As at	**December 27, 2019**	December 28, 2018
External party debt (including revolver loan)	**319,200**	262,941
Less: cash	**(11,267)**	(18,028)
Net long-term obligations	**307,933**	244,913
Total equity	**208,717**	230,244
Total capitalization	**516,650**	475,157

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

The Company is subject to certain financial covenants in its debt obligations. The Company's strategy is to ensure it remains in compliance with all of its existing covenants so as to ensure continuous access to required debt to fund growth. Management reviews results and forecasts to monitor the Company's compliance.

23. Commitments

Customer and supplier commitments

The Company has made commitments to customers and suppliers with respect to minimum volumes for sales, shipping, storage and loading and fibre purchases. These contracts are in the normal course of business and cover periods of up to fifteen years in the future. Failure to meet contractual terms other than as a result of a force majeure event as defined under the various agreements could result in various payments required by the Company. The Company expects to meet its commitments in the normal course of operations.

Capital commitments

The Company has capital commitments of $27,101 at December 27, 2019 (2018 - $20,596) which includes, capital commitments relating to the construction of the High Level Facility of $22,672.

Leased assets not yet in service

In December 2019, Pinnacle entered into a long-term lease to charter a vessel which will be used to carry wood pellets from Canada to Japan. The vessel is scheduled to be available for use by Pinnacle commencing in Q2 2021 for a period of 15 years. This lease has been excluded from the consolidated statement of financial position as the vessel is not available for use at December 27, 2019 and the contract contains certain cancellation features which are dependant on the delivery of the vessel.

A second long-term lease was signed in January 2020 to charter a second vessel, for the same purpose. This vessel is scheduled to be available for use by Pinnacle commencing in Q1 2021, also for a period of 15 years.

(Expressed in thousands of Canadian dollars unless otherwise stated)

24. Contingencies

The Company is involved in various claims associated with its operations. While the outcomes of the proceedings are not determinable, management is of the opinion that the resulting settlements, if any, would not materially affect the financial position of the Company. Should a material loss occur, it would be accounted for when it became likely and reasonably estimable. Otherwise, any losses would be accounted for as a charge to earnings in the period in which the settlement occurred.

Pinnacle maintains several insurance policies, each of which are subject to separate deductibles, sub-limits, and specified criteria that must be met for coverage to be applicable. When the coverage provided by a policy is applicable and recovery of all or a portion of incurred expenses is probable, a receivable will be recorded, and the loss or expense reduced accordingly.

For the year ended December 27, 2019, an insurance recovery of $8,000 (December 28, 2018 - $nil) was received for the Entwistle Incident property damage claim and recorded in other income. The insurance recovery receivable related to property damage as at December 27, 2019, of $1,000 (December 28, 2018 - $nil) is included in other receivables (note 4).

For the year ended December 27, 2019, an insurance recovery of $13,000 (December 28, 2018 - $nil) was recorded for business interruption (as a reduction of production costs) for the Entwistle Incident. As at December 27, 2019, $7,100 has been received in cash for business interruption. The insurance recovery receivable related to business interruption as at December 27, 2019, of $5,900 (December 28, 2018 - $nil) is included in other receivables (note 4).

The Company is in discussions with its insurers on further recoveries which will be recorded when determined.

25. Revenue from contracts with customers

The Company's revenue derived from the sale of finished wood pellets and the provision of port services was as follows:

	December 27, 2019	December 28, 2018
Finished wood pellets	**371,458**	339,782
Port Services	**6,350**	7,658
	377,808	347,440

Revenue attributed to geographic regions based on the location of the customers was as follows:

	December 27, 2019	December 28, 2018
Europe	**318,397**	262,875
Asia	**44,962**	68,084
North America	**14,449**	16,481
	377,808	347,440

26. Economic dependence

The Company has certain European customers whose individual revenue represents 10% or greater of the Company's total revenue. For the fiscal year ended December 27, 2019, two customers represented 74% (2018: 75%) of the Company's total revenue.

The Company's inbound fibre and outbound bulk pellet exports are transported using an integrated logistics supply chain which includes trucking, rail, terminal, and shipping service providers. If alternative sources for these services were required, the Company's ability to service existing bulk off-take contracts and/or the Company's costs could be impacted.