As at and for the years ended December 25, 2020 and December 27, 2019

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 "Entity"), which comprise:

– the consolidated statements of financial position as at December 25, 2020 and December 27, 2019;

– 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 Entity as at December 25, 2020 and December 27, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 Entity 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.

KPMG

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 25, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluating conversion rates to determine volume of fibre inventories

Description of the matter

We draw attention to Notes 2(d) and 5 of the financial statements. The carrying value of fibre inventory is $17.1 million. Fibre inventory includes significant estimation in the conversion rates to determine the volume of residual fibre stockpiles and log inventory. Third-party surveys are performed regularly to assess the volume of inventory and appropriate adjustments are made, if required using conversion factors estimated by management.

Why the matter is a key audit matter

We identified the evaluation of conversion rates to determine volume of the Entity's fibre inventories as a key audit matter.

This matter represented an area of higher assessed risk of material misstatement given the magnitude of fibre inventory and the sensitivity of the fibre inventory volumes to changes in the conversion factors used to determine the Entity's fibre inventory volumes. In addition, significant auditor judgement was required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of certain controls over the Entity's process for determining the ending volumes of fibre inventory, including controls related to the development of the significant assumptions.

For a selection of fibre locations, we virtually attended the Entity's physical inventory surveys as they were being conducted.

We assessed the competence, capabilities and objectivity of the Entity's engaged third-party experts.

We evaluated the appropriateness of the conversion factors by comparing to:

- Historical actual conversion factors
- Recent experience by evaluating adjustments to fibre inventories during the period when fibre inventory piles are drawn down.

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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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 Entity (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.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 24, 2021

PINNACLE RENEWABLE ENERGY INC.

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars unless otherwise stated)

As at	Note	**December 25, 2020**	December 27, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**11,510**	11,267
Restricted cash		**1,325**	-
Accounts receivable	4	**30,941**	36,764
Inventory	5	**42,679**	46,938
Receivable against NMTC debt	26	**-**	12,774
Other current assets		**4,308**	10,916
Total current assets		**90,763**	118,659
Property, plant and equipment	6	**565,442**	399,181
Goodwill and intangible assets	7	**98,795**	100,191
Investment in Houston Pellet Limited Partnership	8	**7,217**	7,548
Deferred income tax assets	15	**4,688**	2,448
Other long-term assets		**17**	1,364
Total assets		**766,922**	629,391
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**64,737**	50,663
Revolver loan	9	**6,000**	19,200
Current portion of long-term debt	9	**21,700**	3,128
Current portion of NMTC debt	26	**-**	12,774
Current portion of lease liabilities	25	**10,879**	7,424
Other current liabilities		**315**	1,786
Total current liabilities		**103,631**	94,975
Long-term debt	9	**352,070**	293,686
Lease liabilities	25	**92,765**	29,551
Other long-term liabilities	10	**6,857**	2,462
Deferred income tax liabilities	15	**1,130**	-
Total liabilities		**556,453**	420,674
EQUITY			
Shareholders' equity			
Common shares	11	**278,076**	277,619
Contributed surplus		**4,377**	4,145
Accumulated other comprehensive loss		**(4,474)**	(1,320)
Deficit		**(130,989)**	(117,191)
Total equity attributable to owners of the Company		**146,990**	163,253
Non-controlling interest	12	**63,479**	45,464
Total equity		**210,469**	208,717
Total liabilities and equity		**766,922**	629,391

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 25, 2020**	December 27, 2019
Revenue	23	**490,505**	377,808
Costs and expenses			
Production		**346,266**	258,547
Distribution		**62,223**	54,021
Selling, general and administration	13	**20,049**	18,495
Amortization of equipment and intangible assets		**42,830**	39,997
		471,368	371,060
Operating income		**19,137**	6,748
Other income/(expense)			
Equity (loss)/earnings in Houston Pellet Limited Partnership	8	**(330)**	573
Loss on disposal of property, plant and equipment		**(1,058)**	(1,103)
Impairment of Entwistle		**-**	(9,417)
Impairment of intangibles		**-**	(278)
Insurance recovery for property loss at Entwistle		**3,643**	9,000
Finance costs	14	**(26,534)**	(24,178)
Other income		**157**	6,376
		(24,122)	(19,027)
Net loss before income taxes		**(4,985)**	(12,279)
Income tax recovery			
Deferred	15	**1,109**	2,305
		1,109	2,305
Net loss		**(3,876)**	(9,974)
Net (loss)/income attributable to:			
Owners of the Company		**(5,041)**	(10,807)
Non-controlling interests	12	**1,165**	833
		(3,876)	(9,974)
Net loss per share attributable to owners (basic and diluted):	16	**(0.15)**	(0.33)
Weighted average of number of shares outstanding (thousands):	16	**33,359**	33,238

See accompanying notes to the consolidated financial statements

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	**December 25, 2020**	December 27, 2019
Net loss	**(3,876)**	(9,974)
Items that may be recycled through net income:		
Foreign exchange translation of foreign operations, net of tax	**(4,506)**	(940)
Comprehensive loss for the year	**(8,382)**	(10,914)
Comprehensive (loss)/income attributable to:		
Owners of the Company	**(8,195)**	(12,127)
Non-controlling interests	**(187)**	1,213
	(8,382)	(10,914)

See accompanying notes to the consolidated financial statements

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	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 28, 2018	**33,003,713**	**273,966**	**3,556**	**-**	**(86,423)**	**39,699**	**230,798**
Net income/(loss) for the year	-	-	-	-	(10,807)	833	(9,974)
Stock options exercised during the year (note 11)	51,094	567	(235)	-	-	-	332
RSUs settled during the year (note 11)	263,545	3,086	-	-	-	-	3,086
Stock-based compensation (note 11)	-	-	824	-	-	-	824
Dividends declared during the year (note 11)	-	-	-	-	(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 of 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**
Balance, December 27, 2019	**33,318,352**	**277,619**	**4,145**	**(1,320)**	**(117,191)**	**45,464**	**208,717**
Net income/(loss) for the year	-	-	-	-	(5,041)	1,165	(3,876)
Stock options exercised during the year (note 11)	41,218	457	(214)	-	-	-	243
Stock-based compensation (note 11)	-	-	446	-	-	-	446
Dividends declared during the year (note 11)	-	-	-	-	(8,757)	-	(8,757)
Foreign exchange translation of foreign operations, net of tax	-	-	-	(3,154)	-	(1,352)	(4,506)
Distribution to non-controlling interests	-	-	-	-	-	(487)	(487)
Investment of non-controlling interests	-	-	-	-	-	18,689	18,689
Balance, December 25, 2020	**33,359,570**	**278,076**	**4,377**	**(4,474)**	**(130,989)**	**63,479**	**210,469**

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 25, 2020**	December 27, 2019
Cash provided by (used in)			
Operating activities			
Net loss		**(3,876)**	(9,974)
Financing costs, net	14	**26,534**	24,178
Distributions from Houston Pellet Limited Partnership		**-**	2,400
Insurance received for business interruption at Entwistle	22	**9,516**	7,100
Realized gain on derivatives and foreign exchange	14	**2,095**	2,189
Items not involving cash:			
Amortization of equipment and intangible assets		**42,830**	39,997
Equity loss/(earnings) in Houston Pellet Limited Partnership	8	**330**	(573)
Loss on disposal of equipment		**1,058**	1,103
Stock-based compensation	11	**642**	1,020
Inventory write down	5	**688**	181
Impairment of Entwistle plant		**-**	9,417
Impairment of intangible assets		**-**	278
Insurance recoverable recorded in income related to Entwistle	22	**(7,259)**	(22,000)
Business interruption insurance recorded in income related to Houston	22	**(490)**	-
Deferred income tax recovery	15	**(1,109)**	(2,305)
Cash flow from operating activities		**70,959**	53,011
Net change in non-cash operating working capital	17	**15,317**	(20,049)
		86,276	32,962
Financing activities			
Drawings on revolver loan	9	**278,200**	199,600
Repayment of revolver loan	9	**(291,400)**	(198,850)
Drawings on term debt	9	**-**	277,944
Repayment of term debt	9	**(5,600)**	(194,000)
Drawings on delayed draw loan	9	**82,200**	20,000
Repayment of delayed draw loan	9	**-**	(49,760)
Principal payment of leases	25	**(9,253)**	(7,550)
Proceeds from exercise of stock options	11	**243**	332
Dividends paid during the period	11	**(8,757)**	(19,939)
Investment from non-controlling interest		**18,689**	5,652
Distributions to non-controlling interest		**(487)**	(1,100)
Finance costs paid	14	**(19,817)**	(19,215)
		44,018	13,114
Investing activities			
Insurance recovery for property loss at Entwistle	22	**4,643**	8,000
Increase in restricted cash		**(1,325)**	-
Purchase of intangible assets	7	**(71)**	-
Purchase of property, plant and equipment	17	**(133,361)**	(61,032)
Proceeds from sale of property, plant and equipment		**400**	157
		(129,714)	(52,875)
Foreign exchange (loss)/gain on cash position held in foreign currency		**(337)**	38
Increase/(decrease) in cash and cash equivalents		**243**	(6,761)
Cash and cash equivalents, beginning of the year		**11,267**	18,028
Cash and cash equivalents, end of the year		**11,510**	11,267

See accompanying notes to the consolidated financial statements

1. Nature of operations

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”).

Statement of compliance

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 February 24, 2021.

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 income.

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

The fiscal year or year referred to in the consolidated financial statements are the 52-week periods ended December 25, 2020 and December 27, 2019.

(Expressed in thousands of Canadian dollars unless otherwise stated)

2. Basis of presentation

a) 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
Alabama Pellets, LLC ("APLLC")	USA	70%	70%	Consolidated
Northern Pellet Inc. ("NPI")	Canada	50%	50%	Proportionately Consolidated
Northern Pellet Limited Partnership ("NPLP")	Canada	50%	50%	Proportionately Consolidated

In 2019, 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%.

On December 31, 2019, Pinnacle Westervelt Renewable Holdings, LLC changed its name to Alabama Pellets, LLC. Subsequently, a merger with Westervelt Pellets I, LLC took place on March 1, 2020 with Alabama Pellets, LLC being the surviving entity.

b) 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").

c) 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.

2. Basis of presentation

c) Use of estimates and judgments (continued)

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from management estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes as well discussed in note 3:

- Note 5 – Inventory
- Note 6 – Property, plant and equipment ("PP&E")
- Note 7 – Goodwill and intangible assets
- Note 10 – Other long-term liabilities (decommissioning liabilities)
- Note 11 – Options (equity settled stock-based compensation)
- Note 11 – Restricted Stock Units ("RSU") (equity/cash settled stock-based compensation)
- Note 15 – Income taxes
- Note 25 – Lease liabilities

Potential impacts of the COVID- 19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant changes during the year ended December 25, 2020.

d) 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 25, 2020 and have not been applied in preparing these consolidated financial statements.

In August 2020, the IASB published the *Interest Rate Benchmark Reform - Phase 2*, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosure, IFRS 4 Insurance Contracts, and IFRS 16 Leases. The Phase 2 amendments address issues that may affect financial reporting related to financial instruments and hedge accounting resulting from the reform of an interest rate benchmark. The amendments are effective for annual periods beginning on or after January 1, 2021. The Company is assessing the effect of amendments related to the interest rate benchmark reform on its consolidated financial statements including the impact, if any, on amounts drawn on the Company's third amended and restated credit agreement (as defined below) which bear interest based on London Inter-Bank Offered Rate ("LIBOR").

Other new standards, and amendments to standards are not 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.

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. Income or loss 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) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. When the Company undertakes its activities under joint operations, the Company applies the proportionate consolidation method and recognizes:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

3. Significant accounting policies (continued)

d) Joint operations (continued)

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS standards applicable to the particular assets, liabilities, revenues and expenses. Where the Company transacts with a joint operation, unrealized incomes and losses are eliminated to the extent of the Company's interest in that joint operation.

e) 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.

f) 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 income.

Foreign operations:

Certain of the Company's subsidiaries have a functional currency of the US dollar ("USD"). Revenues and expenses of such foreign operations are translated to Canadian dollars ("CAD") at the average rates for the period which approximate the transaction date rates. 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 recorded in accumulated other comprehensive income will be released to net income 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 accumulated other comprehensive income in equity.

3. Significant accounting policies (continued)

f) Foreign currency translation (continued)

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 investment 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 income. 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 income. When the hedged net investment is disposed of, the relevant amount in the accumulated other comprehensive income is reclassified to net income.

g) 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.

h) Inventory

Inventories of fibre, finished wood pellets, fuel, 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. 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.

Fibre inventory includes significant estimation in the conversion rates to determine the volume of residual fibre stockpiles and log inventory. Third-party surveys are performed regularly to assess the volume of inventory and appropriate adjustments are made, if required using conversion factors estimated by management. Internal inventory counts are performed periodically at all locations.

3. Significant accounting policies (continued)

h) Inventory (continued)

Finished pellet inventory at port locations includes estimates of physical loss provisions applied against the inventory. These provisions are based on historical experience and are subsequently reversed when the inventory goes to zero physical pellets and a detailed reconciliation is performed.

i) 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 improvements 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 income (loss).

Until a property is declared as functioning properly and the asset is operating as intended by management, development costs and the related revenue generated in the costs of testing the asset are capitalized. The determination of the date on which a mill enters commercial production is a matter of judgment that impacts the recognition of associated revenues and costs on the statement of income/(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 income/(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) 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.

n) 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.

o) Income taxes

Income tax expense comprises current and deferred income taxes. Tax is recognized in the consolidated statement of comprehensive income/(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 income 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 income/(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 income 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, or otherwise if tax assets and liabilities will be realized simultaneously.

3. Significant accounting policies (continued)

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 income 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 dependent 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.

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.

3. Significant accounting policies (continued)

q) Financial instruments (continued)

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 income 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.

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 income/(loss).

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 income/(loss). Separable embedded derivatives are measured at fair value with changes recognized immediately through income/(loss).

3. Significant accounting policies (continued)

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 income/(loss)., impairment losses recognized on financial assets, foreign exchange gains (losses), gains (losses) on derivatives and interest cost related to payment of leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income/(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.

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 income/(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) Earnings per share

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

3. Significant accounting policies (continued)

v) Stock-based compensation

The Company has a stock option plan/ restricted stock units as described in note 11. 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. Options are equity settled stock- based compensation, while restricted stock units are both equity/ cash settled stock-based compensation.

w) Leases

At inception of a contract, the Company will assess 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.

As a lessee:

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use 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 to the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, 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. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

3. Significant accounting policies (continued)

w) Leases (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in income or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loan and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. 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)

4. Accounts Receivable

As at	**December 25, 2020**	December 27, 2019
Trade accounts receivable	**6,688**	10,848
Accrued sales receivables	**21,219**	13,224
Other receivables	**2,750**	11,671
Amounts receivable from related parties (note 18)	**284**	1,021
	30,941	36,764

Other receivables include an amount of $490 (December 27, 2019 - $6,900) for business interruption insurance recoverable related to the Houston incident in 2020 and Entwistle incident in 2019. All amounts related to the Entwistle incident have been received as at December 25, 2020.

5. Inventory

As at	**December 25, 2020**	December 27, 2019
Wood pellets	**14,638**	23,068
Fibre	**17,108**	14,159
Supplies and spare parts	**10,464**	9,711
Charter vessel fuel	**469**	-
	42,679	46,938

The provision related to wood pellets as at December 25, 2020 was $143 (December 27, 2019 - $376). Changes to the provision are included in production costs in the statement of income or loss.

Included in the above fibre inventory amounts were provisions of $491 (December 27, 2019 - $181). Changes to the provision are included in production costs in the statement of income or loss.

(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, December 27, 2019	**76,839**	**256,449**	**29,442**	**36,451**	**399,181**
Reclassification to ROU assets	-	339	-	(339)	-
Additions	-	-	134,447	77,062	211,509
Amortization	(5,182)	(26,490)	-	(9,904)	(41,576)
Disposals and retirements	-	(1,182)	-	(1,268)	(2,450)
Exchange rate movement	(79)	(991)	(149)	(3)	(1,222)
Transfer from construction-in-progress	30,434	47,148	(77,582)	-	-
Balance, December 25, 2020	**102,012**	**275,273**	**86,158**	**101,999**	**565,442**
Cost	133,417	423,724	86,158	119,283	762,582
Accumulated amortization	(31,405)	(148,451)	-	(17,284)	(197,140)
Balance, December 25, 2020	**102,012**	**275,273**	**86,158**	**101,999**	**565,442**

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	ROU Assets	Total
Balance, December 28, 2018	**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**

On December 8, 2020 after completion of its testing, the Company determined that the High Level facility had the ability to operate as intended and thus, $33,969 was transferred from construction in progress into use; $209 was included in the cost of the asset related to revenues and costs incurred during the testing period. Revenue included was $281 for the testing period.

PP&E includes $79,845 (December 27, 2019 - $1,455) related to the construction-in-progress at Demopolis. $3,141 of capitalized interest was included as additions related to qualifying assets in the year (December 27, 2019 - $661).

ROU assets includes $60,666 for the lease of a charter vessel for a period of 15 years that will carry wood pellets from Canada to Japan (December 27, 2019 - $nil).

Amortization expense includes amortization recharged to Houston Pellet Limited Partnership that is included as a reduction of equity earnings and Northern Pellet Limited Partnership that is included as proportionally consolidated in production costs on the statement of income/(loss).

(Expressed in thousands of Canadian dollars unless otherwise stated)

7. Goodwill and intangible assets

	Goodwill	Customer relationships	Supply agreements	Other	Total
At December 27, 2019	97,482	576	1,068	1,065	100,191
Amortization	-	(576)	(562)	(328)	(1,467)
Addition	-	-	-	71	71
Net book value at December 25, 2020	**97,482**	**-**	**506**	**808**	**98,795**
At December 25, 2020					
Cost	97,482	15,000	11,551	1,513	125,545
Accumulated amortization	-	(15,000)	(11,045)	(705)	(26,750)
Net book value at December 25, 2020	**97,482**	**-**	**506**	**808**	**98,795**

The Company conducted its annual impairment testing for goodwill in the fourth quarter end 2020. 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. Based on the market capitalization of the Company being greater than the net book value of its equity at December 25, 2020, the Company concluded that no impairment of goodwill existed as at December 25, 2020.

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 25, 2020**	December 27, 2019
Current assets	**15,694**	17,727
Non-current assets	**5,958**	7,300
Current liabilities	**(3,443)**	(5,466)
Non-current liabilities	**(229)**	(477)
Net assets	**17,980**	19,084
Company's share of net assets	**5,394**	5,725
Goodwill	**1,823**	1,823
Investment in HPLP	**7,217**	7,548

	December 25, 2020	December 27, 2019
Revenue	**29,548**	33,092
Expense	**(28,840)**	(29,410)
Amortization	**(1,450)**	(1,580)
Loss on disposal of property and equipment	**(359)**	(192)
Net (loss)/income	**(1,101)**	1,910
Company's share of net (loss)/income	**(330)**	573

(Expressed in thousands of Canadian dollars unless otherwise stated)

9. Long-term debt

As at	**December 25, 2020**	December 27, 2019
Revolver loan	**6,000**	19,200
Term loan	**274,400**	280,000
Delayed draw	**102,200**	20,000
Deferred financing costs	**(2,830)**	(3,186)
	379,770	316,014
Less:		
Revolver loan - current portion	**(6,000)**	(19,200)
Term loan - current portion	**(16,800)**	(4,200)
Delayed draw - current portion	**(5,995)**	-
Deferred financing costs - current portion	**1,095**	1,072
	352,070	293,686

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

	Revolver loan	**Term loan**	**Delayed draw**	**Total**
2021	6,000	16,800	5,995	28,795
2022	-	28,000	7,037	35,037
2023	-	21,000	8,588	29,588
2024	-	208,600	80,580	289,180
Total	**6,000**	**274,400**	**102,200**	**382,600**

	Revolver loan	**Term loan**	**Delayed draw**	**Deferred financing cost**	**Total**
Balance at December 28, 2018	18,450	194,000	50,491	(2,566)	260,375
Drawing	199,600	280,000	20,000	-	499,600
Repayment	(198,850)	(194,000)	(50,491)	-	(443,341)
Refinancing cost addition	-	-	-	(2,137)	(2,137)
Amortization of finance cost	-	-	-	1,517	1,517
Balance at December 27, 2019	19,200	280,000	20,000	(3,186)	316,014

	Revolver loan	**Term loan**	**Delayed draw**	**Deferred financing cost**	**Total**
Balance at December 27, 2019	19,200	280,000	20,000	(3,186)	316,014
Drawing	278,200	-	82,200	-	360,400
Repayment	(291,400)	(5,600)	-	-	(297,000)
Refinancing cost addition	-	-	-	(814)	(814)
Amortization of finance cost	-	-	-	1,170	1,170
Balance at December 25, 2020	6,000	274,400	102,200	(2,830)	379,770

On June 26, 2020 the Company amended its senior secured debt, which provides up to a $65,000 revolving operating line, a $280,000 term loan, and a $185,000 delayed draw term loan (the “Facility”). Amendment terms include the introduction of covenant relief until June 2021 and an extension of access to the delayed draw facility until June 30, 2021. The Facility has a maturity date of June 14, 2024.

(Expressed in thousands of Canadian dollars unless otherwise stated)

9. Long-term debt (continued)

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. The fair value of the debt is approximately the carrying value.

At December 25, 2020, the $274,400 term loan was in a CAD BA loan at 4.97% (December 27, 2019: CAD BA loan at 5.45%) and the $102,200 delayed draw was in a CAD Prime loan at 5.95% (December 27, 2019: CAD Prime loan at 6.95%).

At December 25, 2020, the Company had issued letters of credit totaling $1,170 (December 27, 2019 - $970).

EBITDA and Adjusted EBITDA are defined in the Facility agreement and used in the calculation of debt covenants and interest rate margins. Adjusted EBITDA as defined in our credit agreement is different than Adjusted EBITDA as presented in our Management's Discussion & Analysis as it includes adjustments to reflect run-rate EBITDA at facilities in the construction and commissioning phase. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The Facility agreement provides for calculation of the debt covenants prior to the application of IFRS 16. As at December 25, 2020 and December 27, 2019, 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.

10. Other long-term liabilities

	December 25, 2020	December 27, 2019
Restricted share unit liability	**169**	26
Charter vessel fuel liability	**491**	-
Decommissioning liabilities	**2,466**	2,436
Financial liability (note 19)	**3,731**	-
	6,857	2,462

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 27, 2019	Accretion and change in discount rate	**December 25, 2020**
Plants	853	(13)	**840**
Port facility	1,293	87	**1,380**
Rail cars	290	(44)	**246**
Total decommissioning liabilities	2,436	30	**2,466**

10. Other long-term liabilities (continued)

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. The decommissioning cost was discounted at 0.99% (1.66% in 2019) 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 discount rate of 0.99% (1.66% in 2019) 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.

(Expressed in thousands of Canadian dollars unless otherwise stated)

11. Shareholders' equity

As at December 25, 2020, 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 26, 2020, the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at March 12, 2020.

On June 5, 2020, the Company paid a cash dividend of $0.0375 per common share to the shareholders of record as at May 22, 2020.

On September 4, 2020, the Company paid a cash dividend of $0.0375 per common share to the shareholders of record as at August 20, 2020.

On December 3, 2020, the Company paid a cash dividend of $0.0375 per common share to the shareholders of record as at November 20, 2020.

Stock-based compensation

The Company has a legacy stock option plan (the "Legacy Plan") and 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

The Legacy plan is closed for any new awards and will be terminated once the remaining options are no longer outstanding.

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

	December 25, 2020		December 27, 2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of period	**1,543,397**	**$8.18**	1,594,491	$8.13
Exercised	**(41,218)**	**$6.48**	(51,094)	$6.48
Outstanding, end of period	**1,502,179**	**$8.23**	1,543,397	$8.18

For the fiscal year ended December 25, 2020, a total of $182 in stock-based compensation was recognized in relation to the Legacy Plan (December 27, 2019 - $342) and was included in selling, general and administration expenses. Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

b) Long-term incentive plan

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.

(Expressed in thousands of Canadian dollars unless otherwise stated)

11. Shareholders' equity (continued)

b) *Long-term incentive plan (continued)*

i. Options

For the fiscal year ended December 25, 2020, the Company granted 3,000 options, respectively (December 27, 2019 – 452,500), 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.

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

	2020	2019
Dividend yield	**5.33%**	5.33%
Expected volatility	**31.82%**	31.82%
Risk-free interest rate	**0.95%**	1.17% to 1.87%
Expected life	**10 years from grant date**	10 years from grant date
Exercise price	**$8.58**	$ 7.72 to $ 11.78

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

	December 25, 2020		**December 27, 2019**	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of period	**602,500**	**$10.83**	150,000	$14.53
Granted	**3,000**	**$9.21**	452,500	$9.61
Forfeited/cancelled/expired	**(61,667)**	**$10.19**	-	-
Outstanding, end of period	**543,833**	**$10.91**	602,500	$10.83

For the fiscal year ended December 25, 2020, a total of $264 of stock-based compensation expense in relation to options granted under the LTIP was included in selling, general and administration expenses (December 27, 2019 - $482).

ii. Restricted share units

For the fiscal year ended December 25, 2020, the Company granted 128,911 RSUs (December 27, 2019 – 9,081 RSUs). The 2020 RSUs will be settled on December 31, 2022 for all participants. All of the other RSUs will be settled: no later than December 31 of the calendar which is three years from the vesting date for Canadian re participants; and no later than March 15th of the year following the year in which the vesting date occurs for U.S. participants.

As some of 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.

(Expressed in thousands of Canadian dollars unless otherwise stated)

11. Shareholders' equity (continued)

b) *Long-term incentive plan (continued)*

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:

	2020	2019
Dividend yield	**1.71%**	6.01%
Expected volatility	**67.91%**	46.10%
Risk-free interest rate	**0.22% to 0.25%**	1.61% to 1.64%
Expected life	**2.02 to 2.63 years**	3.01 to 6.01 years
Exercise price	**$nil**	$nil

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

	December 25, 2020	December 27, 2019
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	**17,457**	271,921
Granted	**128,911**	9,081
Settled	**-**	(263,545)
Forfeited/cancelled/expired	**(2,500)**	-
Outstanding, end of period	**143,868**	17,457

For the fiscal ended December 25, 2020, stock-based compensation expense in relation to RSU's granted under the LTIP was $196 (December 27, 2019 - $196) and was included in selling, general and administration expenses.

(Expressed in thousands of Canadian dollars unless otherwise stated)

12. 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 25, 2020**	December 27, 2019
Current assets	9,918	9,885
Non-current assets	33,828	35,791
Current liabilities	(4,966)	(5,231)
Non-current liabilities	(1,484)	(1,003)
Net assets	37,296	39,442
Net assets attributable to NCI	9,324	9,861

SPLP	**30%**	30%
As at	**December 25, 2020**	December 27, 2019
Current assets	5,803	6,324
Non-current assets	29,411	30,076
Current liabilities	(3,417)	(3,029)
Non-current liabilities	(18)	(338)
Net assets	31,779	33,033
Net assets attributable to NCI	9,534	9,910

Alabama Pellet LLC	**30%**	30%
As at	**December 25, 2020**	December 27, 2019
Current assets	17,588	34,627
Non-current assets	142,703	66,719
Current liabilities	(12,071)	(16,813)
Non-current liabilities	(404)	(47)
Net assets	147,816	84,486
Net assets attributable to NCI	44,345	25,346
Foreign exchange	276	347
Net assets attributable to NCI	44,621	25,693

Total net assets attributable to NCI	63,479	45,464

(Expressed in thousands of Canadian dollars unless otherwise stated)

12. Non-controlling interests (continued)

LPLP	**December 25, 2020**	December 27, 2019
Revenue	48,550	48,686
Net (loss)/income	(195)	497
Net (loss)/income allocated to NCI	(49)	124

SPLP	**December 25, 2020**	December 27, 2019
Revenue	19,359	17,902
Net loss	(2,198)	(873)
Net loss allocated to NCI	(659)	(262)

Alabama Pellet LLC & Total	**December 25, 2020**	December 27, 2019
Revenue	67,905	45,316
Net income	6,242	3,236
Net income allocated to NCI	1,873	971

Total net income allocated to NCI	1,165	833

13. Selling, general and administrative costs

	December 25, 2020	December 27, 2019
Salaries and employee costs	**13,362**	11,051
Professional fees	**2,520**	1,878
Communications and IT expenses	**1,268**	875
Travel and related expenses	**907**	2,069
Legal and insurance fees	**673**	759
Stock based compensation (note 11)	**642**	1,020
Occupancy costs	**132**	142
Other expenses	**545**	701
Total	**20,049**	18,495

14. Finance costs/(income)

	December 25, 2020	December 27, 2019
Interest on revolver, term debt and delayed draw loan	16,156	15,824
Bank charges and fees	1,470	1,078
Interest on lease liabilities (note 25)	2,191	2,313
Realized gain on derivatives	(2,238)	(1,926)
Realized loss/(gain) on foreign exchange	143	(263)
Total cash portion of finance costs	**17,722**	17,026
Interest on revolver, term debt and delayed draw loan	34	484
Fair value loss on derivatives	6,104	2,769
Unrealized loss on foreign exchange	1,251	1,465
Amortization of deferred financing fees	1,176	1,517
Bank charges and fees	247	917
Total non-cash portion of finance costs	**8,812**	7,152
Finance costs, net	**26,534**	24,178

(Expressed in thousands of Canadian dollars unless otherwise stated)

15. Income taxes

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

	December 25, 2020	December 27, 2019
Income tax recovery at statutory rate - 27% (2019 - 27%)	**1,346**	3,315
(Increase)/decrease related to:		
Non-deductible items and other items	**(439)**	(1,001)
Foreign income subject to different income tax rates than Canada	**71**	(2)
Equity earnings of investment in Houston Pellet Limited Partnership	**(26)**	(9)
Foreign exchange and other translation adjustments	**157**	2
	1,109	2,305
Classified as		
Deferred	**1,109**	2,305
Income tax recovery	**1,109**	2,305

Total income tax recovery/(expense) attributable to each geographical jurisdiction for the Company is as follows:

	December 25, 2020	December 27, 2019
US	**(1,709)**	425
Canada	**2,818**	1,880
	1,109	2,305

At December 25, 2020, the Company has $194,379 (2019 - $150,011) of unused Canadian non-capital loss carry forwards expiring between 2032 and 2039 to reduce future Canadian taxable income, and $28,256 (2019 – $37,916) of unused US federal net operating loss carry forwards with indefinite use to reduce future US taxable income.

Cash taxes paid was $nil for the year ended December 25, 2020 and December 27, 2019.

All tax impacts are recognized as income tax recovery/(expense). No impacts have been recognized as part of accumulated other comprehensive income/(loss).

(Expressed in thousands of Canadian dollars unless otherwise stated)

15. Income taxes (continued)

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

	December 25, 2020	December 27, 2019
Deferred tax assets:		
Non-capital losses	**59,867**	50,412
Provisions	**28,014**	10,224
Transaction costs	**1,359**	1,938
Other	**2,812**	1,604
	92,052	64,178
Deferred tax liabilities:		
Property, plant and equipment	**(87,159)**	(59,115)
Intangible assets	**(218)**	(556)
Deferred financing costs	**(764)**	(860)
Other	**(353)**	(1,199)
	(88,494)	(61,730)
Net deferred tax asset	**3,558**	2,448

	December 25, 2020	December 27, 2019
Net deferred tax asset, beginning of the year	**2,448**	149
Deferred tax assets:		
Non-capital losses	**9,455**	26,554
Provisions	**17,790**	9,068
Transaction costs	**(579)**	(180)
Other	**1,207**	340
Deferred tax liabilities:		
Property, plant and equipment	**(28,039)**	(34,625)
Intangible assets	**338**	956
Deferred financing costs	**96**	(167)
Other	**842**	353
Net deferred tax asset, end of the year	**3,558**	2,448

The Company's deferred income tax assets/(liabilities) attributed to each geographical jurisdiction for the Company is as follows:

	December 25, 2020	December 27, 2019
US	**(1,130)**	578
Canada	**4,688**	1,870
	3,558	2,448

(Expressed in thousands of Canadian dollars unless otherwise stated)

16. Earnings per share

Net loss per share has been calculated as follows:

	December 25, 2020	December 27, 2019
Net loss for the period attributable to owners	**(5,041)**	(10,807)
Net loss per share (basic and diluted)	**(0.15)**	(0.33)
Weighted average of number of shares outstanding (thousands)	**33,359**	33,238

For fiscal year ended, the Company has net losses attributable to owners, such that the potential impacts to dilutive instruments were anti-dilutive.

17. Supplemental cash flow information

The following table details the changes in assets and liabilities from operating activities:

	December 25, 2020	December 27, 2019
Accounts receivable	**(587)**	11,637
Inventory	**3,571**	(22,588)
Other assets	**6,608**	(6,606)
Accounts payable and accrued liabilities	**9,487**	(3,902)
Other current liabilities	**(3,762)**	1,410
Net change in non-cash operating working capital	**15,317**	(20,049)

	December 25, 2020	December 27, 2019
PP&E additions during the period	**134,447**	70,257
PP&E additions from prior period paid during the period	**9,452**	2,354
PP&E additions in accounts payable & other liabilities	**(10,538)**	(11,579)
Purchase of PP&E	**133,361**	61,032

18. 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. Based on information provided by ONCAP, as at December 25, 2020, ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31% (as at December 27, 2019 – 31%) 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.

(Expressed in thousands of Canadian dollars unless otherwise stated)

18. Related parties (continued)

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

	December 25, 2020	December 27, 2019
Base compensation and benefits	1,984	1,573
Board member fees	353	180
Annual bonus	429	255
Stock-based compensation	408	670
	3,174	2,678

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 25, 2020	December 27, 2019
Purchases	29,613	33,111
Revenue	4,051	3,844
Management fee	576	575

As at	**December 25, 2020**	December 27, 2019
Amounts receivable	284	1,021
Amounts payable	1,816	5,281

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 25, 2020	December 27, 2019
Purchases	48,559	48,686
Revenue	30	16

As at	**December 25, 2020**	December 27, 2019
Amounts receivable	-	153
Amounts payable	6,095	6,575

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

(Expressed in thousands of Canadian dollars unless otherwise stated)

18. Related parties (continued)

SPLP

SPLP is owned 70% by the Company and 30% by a non-related third party. The Company purchases industrial wood pellets from SPLP and earns revenue from sales of fibre at negotiated prices between the Company and the non-related third party.

	December 25, 2020	December 27, 2019
Purchases	19,359	17,902
Revenue	-	46

As at	**December 25, 2020**	December 27, 2019
Amounts receivable	592	254
Amounts payable	2,718	2,409

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

APLLC

APLLC is wholly owned by PRHUSA which is owned 70% by the Company and 30% by a non-related third party. APLLC has direct sales contracts with non-related third parties. The Company also purchases industrial wood pellets from APLLC.

	December 25, 2020	December 27, 2019
Management fee	2,363	1,945

As at	**December 25, 2020**	December 27, 2019
Amounts receivable	1,259	79

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. On December 8, 2020, NPLP commenced commercial production. The Company purchases industrial wood pellets from NPLP. The Company manages and administers the business affairs of NPLP.

	December 25, 2020	December 27, 2019
Purchases	1,562	-
Management fee	122	-

As at	**December 25, 2020**	December 27, 2019
Amounts receivable	1,011	66
Amounts payable	1,579	-

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

(Expressed in thousands of Canadian dollars unless otherwise stated)

19. Financial instruments

19.1 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 income or loss	December 25, 2020
Financial Assets				
Cash and cash equivalents	11,510	-	-	11,510
Accounts receivable	30,941	-	-	30,941
Financial Liabilities				
Accounts payable and accrued liabilities	-	(64,737)	-	(64,737)
Derivative financial instruments included in other current liabilities	-	-	(3)	(3)
Derivative financial instruments included in other long-term liabilities	-	-	(3,731)	(3,731)
Loan facilities	-	(379,770)	-	(379,770)
Other long-term liabilities	-	(3,126)	-	(3,126)

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through income 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 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	-	(316,014)	-	(316,014)
NMTC debt	-	(12,774)	-	(12,774)
Other long-term liabilities	-	(2,462)	-	(2,462)

(Expressed in thousands of Canadian dollars unless otherwise stated)

19. Financial instruments (continued)

19.2 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 statement of financial position 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 fiscal year ended December 25, 2020. The following table summarizes the Company's financial instruments measured at fair value at December 25, 2020 and December 27, 2019, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

	Fair value hierarchy level	**December 25, 2020**	December 27, 2019
Derivative financial instruments (liability)/asset			
USD forward contracts	Level 1	**(3)**	1,333
Interest rate swaps	Level 1	**(3,731)**	1,037
		(3,734)	2,370

For the fiscal year ended December 25, 2020, the Company recognized a gain of $2,238 ($1,926 gain for 2019) and an unrealized loss of $6,104 ($2,769 loss for 2019) on its derivative financial instruments in its net income.

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 income or loss.

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)

19. Financial instruments (continued)

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 (liability)/asset
As at December 25, 2020					
USD forward contracts	**175**	**1.2846**	**175**	**-**	**(3)**
As at December 27, 2019					
USD forward contracts	25,975	1.2556	25,800	175	1,333

The contractual maturities of non-derivative financial assets and liabilities excluding interest are as follows:

As at December 25, 2020	Carrying Amount	Contractual cash flows	Current	Between 2 and 5 years	More than 5 years
Accounts payable and accrued liabilities	64,737	64,737	64,737	-	-
Accounts receivable	30,941	30,941	30,941	-	-
Cash	11,510	11,510	11,510	-	-
Revolver loan	6,000	6,000	6,000	-	-
Term loan	274,400	274,400	16,800	257,600	-
Delayed draw loan	102,200	102,200	5,995	96,205	-

20. 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 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 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. A 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 2020 and 2019.

(Expressed in thousands of Canadian dollars unless otherwise stated)

20. Financial risk and capital management (continued)

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.

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.

Market risk

Market risk is that the change in market prices such as foreign exchange rates will affect the Company's income/(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, charter vessel leases, 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, as well as entering into sales contracts denominated in USD to mitigate its exposure on operating costs and capital requirements denominated in USD. The remaining exposure is mainly mitigated by entering into a series of USD forward contracts matching the amount and timing of the estimated USD expenditures, as well as natural hedges put in place through USD denominated transactions.

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.

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 25, 2020**	December 27, 2019
External party debt (including revolver loan)	**379,770**	316,014
Less: cash	**(11,510)**	(11,267)
Net long-term obligations	**368,260**	304,747
Total equity	**210,469**	208,717
Total capitalization	**578,729**	513,464

20. Financial risk and capital management (continued)

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.

21. 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 $39,605 at December 25, 2020 (2019 - $27,101) which includes, capital commitments relating to the construction of the Demopolis facility of $38,846.

22. 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.

Other receivables includes $490 related to insurance recoverable recorded for business interruption related to the Houston incident as at December 25, 2020.

COVID-19 was declared a pandemic in the period and to date has not had a significant impact on the Company's financial position, results of operations and cash flows. Given the significant uncertainties with this pandemic, there can be no guarantee that the Company won't be materially impacted in the future.

(Expressed in thousands of Canadian dollars unless otherwise stated)

23. Revenue from contracts with customers

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

	December 25, 2020	December 27, 2019
Finished wood pellets	**483,842**	371,458
Port services	**6,663**	6,350
	490,505	377,808

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

	December 25, 2020	December 27, 2019
Europe	**400,922**	318,397
Asia	**78,377**	44,962
North America	**11,206**	14,449
	490,505	377,808

24. Economic dependence

The Company has certain European customers whose individual revenue represents 10% or greater of the Company's total revenue. For fiscal year ended December 25, 2020, three customers represented 72% of the Company's total revenue. For the fiscal year ended December 27, 2019, two customers represented 74% 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, barge, 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.

25. Lease liabilities

As at	**December 25, 2020**	December 27, 2019
Lease liabilities	**103,644**	36,975
Less:		
Current portion of lease liabilities	**(10,879)**	(7,424)
	92,765	29,551

As at	**December 25, 2020**	December 27, 2019
Balance, beginning of the period	**36,975**	36,803
Finance expense (note 14)	**(2,191)**	(2,313)
Principal lease payments	**(9,253)**	(7,550)
Additions and other	**78,113**	10,035
	103,644	36,975

On December 24, 2020, the Company began the use of the chartered vessel from Canada to Japan to ship wood pellets. $60,666 was added to lease liabilities related to the chartered vessel. The Company grouped leases with similar characteristics that include landing & building, rail cars, vehicles & equipment, and vessels. Lease payments were discounted utilizing the incremental borrowing rate based on the portfolio of leases ranging from 5.2% to 6.3% (2019 – 6.3% to 6.6%).

(Expressed in thousands of Canadian dollars unless otherwise stated)

25. Lease liabilities (continued)

The aggregate undiscounted contractual cash flows for the lease liabilities are as follows:

As at December 25, 2020	Carrying Amount	Contractual cash flows	Current	Between 2 and 5 years	More than 5 years
Lease liability	103,644	143,519	16,410	50,511	76,598

26. New Market Tax Credit Debt (NMTC Debt)

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.

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. 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, thus making the balance as at December 25, 2020 $nil.

27. Subsequent events

On January 7, 2021, the Company entered into an extension of a long-term, take-or-pay off-take contract with Mitsubishi Corporation Ltd. to supply 80,000 to 90,000 MT per year starting Q1 2023.

On January 18, 2021, the Company received approval for a $5.0 million Capital Investment Tax Credit from the Alberta Government. The tax credit can be carried forward for up to 10 years.

On January 25, 2021, the Company received notice of regulatory charges laid by Alberta Occupational Health and Safety (OHS) following their investigation of the explosion which resulted in injuries at the Company's plan in Entwistle, AB on February 11, 2019. The Company has not yet received any details on basis for the charges and will fully cooperate with OHS.

On February 8, 2021, the Company announced that it has entered into an arrangement agreement with Drax Group PLC ("Drax") (LSE:DRX) for Drax to acquire all of the issued and outstanding common shares of Pinnacle. The Company's shareholders are entitled to receive $11.30 per share in cash with all future dividends suspended starting in the first quarter of 2021. The transaction is anticipated to close in the second or third quarter of 2021 and is subject to approval by two-thirds of the votes cast by holders at a special meeting of the Company's shareholders, approval by a majority of the votes cast by holders of Drax shares at a meeting of Drax shareholders, and other governmental and regulatory approvals.