As at and for the years ended December 29, 2017 and December 30, 2016

Consolidated Financial Statements

Pinnacle.
RENEWABLE HOLDINGS INC.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pinnacle Renewable Holdings Inc.

We have audited the accompanying consolidated financial statements of Pinnacle Renewable Holdings Inc., which comprise the consolidated statements of financial position as at December 29, 2017 and December 30, 2016, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pinnacle Renewable Holdings Inc. as at December 29, 2017 and December 30, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

March 15, 2018
Vancouver, Canada

PINNACLE RENEWABLE HOLDINGS INC.

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

As at		December 29, 2017		December 30, 2016
Assets				
Current assets				
Cash and cash equivalents	**$**	**18,908**	$	12,112
Accounts receivable (note 4)		**41,253**		24,746
Inventory (note 5)		**17,709**		20,422
Other current assets		**3,392**		4,460
		81,262		61,740
Property, plant and equipment (note 6)		**238,196**		175,849
Investment in Houston Pellet Limited Partnership (note 7)		**8,916**		8,210
Other long-term assets		**51**		228
Goodwill and intangible assets (note 8)		**105,220**		107,484
Total assets	**$**	**433,645**	$	353,511
Liabilities				
Current liabilities				
Revolver loan (note 9)	**$**	**22,000**	$	7,100
Accounts payable and accrued liabilities		**35,653**		42,185
Current portion of term debt (note 9)		**6,000**		1,600
Other current liabilities		**15,977**		1,075
		79,630		51,960
Term debt (note 9)		**190,813**		155,570
Shareholders' debentures payable (note 10)		**88,881**		76,972
Common and preferred shares classified as liabilities (note 11)		**25,992**		19,765
Other long-term liabilities (note 12)		**3,457**		2,151
Deferred income taxes (note 18)		**9,668**		9,142
		398,441		315,560
Equity				
Common shares (note 13)		**29,500**		29,500
Preferred shares (note 13)		**28,005**		28,005
Contributed surplus (note 16)		**4,332**		4,095
Equity component of convertible debentures (note 10)		**35,213**		35,213
Deficit		**(75,419)**		(70,182)
Total equity (deficit) attributable to: Owners of the Company		**21,631**		26,631
Non-controlling interests (note 14)		**13,573**		11,320
		35,204		37,951
Total liabilities and equity	**$**	**433,645**	$	353,511

Commitments (note 25)
Contingencies (note 26)
Subsequent events (note 29)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin
Director, Gregory Baylin

s/Hugh MacDiarmid
Director, Hugh MacDiarmid

PINNACLE RENEWABLE HOLDINGS INC.

Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)

Fiscal year ended		**December 29, 2017**		December 30, 2016
Revenue (notes 27 and 28)	**$**	**292,727**	$	266,338
Costs and expenses (note 15)				
Production		**188,414**		173,693
Distribution		**38,421**		39,474
Selling, general and administration		**15,268**		12,331
Amortization of equipment and intangible assets		**21,819**		21,211
		263,922		246,709
Profit (loss) before undernoted items		**28,805**		19,629
Equity earnings in Houston Pellet Limited Partnership (note 7)		**1,381**		5,675
Loss on disposal of property, plant and equipment		**(1,049)**		(1,966)
Plant impairment loss and curtailment costs (note 6)		**(4,626)**		(1,591)
Revaluation loss on class B and D common shares (note 11)		**(5,601)**		(10,278)
Finance costs excluding shareholders' debentures (note 17a)		**(11,892)**		(9,244)
Finance (costs) income on shareholders' debentures (note 17b)		**(12,359)**		8,244
Other income		**983**		364
		(33,163)		(8,796)
Net profit (loss) before income taxes		**(4,358)**		10,833
Income tax (expense) (note 18)				
Current		**-**		(2)
Deferred		**(526)**		(5,569)
		(526)		(5,571)
Net profit (loss) and comprehensive income (loss) for the year	**$**	**(4,884)**	$	5,262
Net profit (loss) and comprehensive income (loss) attributable to:				
Owners of the Company	**$**	**(5,237)**	$	4,396
Non-controlling interests		**353**		866
Net profit (loss) and comprehensive income (loss) for the year	**$**	**(4,884)**	$	5,262
Net profit (loss) per share attributable to owners (note 19):				
Basic and diluted - Class A	**$**	**(0.22)**	$	0.11
Basic and diluted - Class B	**$**	**(0.22)**	$	0.11
Weighted average of number of shares outstanding (thousands):				
Class A - Basic and diluted		**25,000**		25,000
Class B - Basic and diluted		**4,500**		4,500

See accompanying notes to the consolidated financial statements

PINNACLE RENEWABLE HOLDINGS INC.

Consolidated Statements of Equity

(Expressed in thousands of Canadian dollars)

	Common shares (note 13)	Preferred shares (note 13)	Contributed surplus (note 16)	Convertible debentures equity (note 10)	Deficit	Non-controlling Interests (note 14)	Total equity
Balance, December 25, 2015	**$ 29,500**	**$ 29,005**	**$ 3,957**	**$ 26,319**	**$ (65,540)**	**$ 10,754**	**$ 33,995**
Net profit and comprehensive income for the year	-	-	-	-	4,396	866	5,262
Stock-based compensation (note 16)	-	-	138	-	-	-	138
Investment by non-controlling interest	-	-	-	-	-	500	500
Cash distributions to non-controlling interest	-	-	-	-	-	(800)	(800)
Shares repurchased	-	(1,000)	-	-	-	-	(1,000)
Dividends	-	-	-	-	(144)	-	(144)
Adjustment to convertible debentures equity on modification (note 10)	-	-	-	8,894	(8,894)	-	-
Balance, December 30, 2016	**$ 29,500**	**$ 28,005**	**$ 4,095**	**$ 35,213**	**$ (70,182)**	**$ 11,320**	**$ 37,951**
Net profit (loss) and comprehensive income (loss) for the year	-	-	-	-	(5,237)	353	(4,884)
Cash distributions to non-controlling interest	-	-	-	-	-	(500)	(500)
Investment by non-controlling interest	-	-	-	-	-	2,400	2,400
Stock-based compensation (note 16)	-	-	237	-	-	-	237
Balance, December 29, 2017	**$ 29,500**	**$ 28,005**	**$ 4,332**	**$ 35,213**	**$ (75,419)**	**$ 13,573**	**$ 35,204**

See accompanying notes to the consolidated financial statements

PINNACLE RENEWABLE HOLDINGS INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Fiscal year ended	**December 29, 2017**	December 30, 2016
Cash provided by (used in)		
Operating activities		
Net profit (loss) for the year	**$ (4,884)**	$ 5,262
Finance costs excluding shareholders' debentures	**11,892**	9,244
Finance costs (income) on shareholders' debentures	**12,359**	(8,244)
	19,367	6,262
Items not involving cash		
Amortization of property, plant and equipment (note 6)	**18,904**	18,242
Amortization of intangible assets (note 8)	**2,915**	2,971
Equity earnings in Houston Pellet Limited Partnership (note 7)	**(1,381)**	(5,675)
Loss on disposal on property, plant and equipment	**1,049**	1,966
Impairment loss on property, plant and equipment (note 6)	**3,245**	-
Stock-based compensation	**237**	138
Inventory write-down	**-**	75
Loss on disposal of shares	**-**	572
Revaluation loss of class B and D common shares (note 11)	**5,601**	10,278
Income tax expense	**526**	5,571
Other	**(10)**	(243)
Distributions from Houston Pellet Limited Partnership	**675**	4,575
Income tax received	**-**	10
	51,128	44,742
Net change in non-cash operating working capital (note 20)	**(20,183)**	(14,126)
	30,945	30,616
Financing activities		
Issuance of revolver loan	**14,900**	7,100
Issuance of term debt	**180,000**	161,786
Repayment of term debt	**(160,000)**	(178,690)
Issuance of delayed draw loan	**20,000**	-
Issuance of Class D common shares	**550**	-
Shareholders' debentures payable	**-**	5,266
Investment from non-controlling interest	**2,400**	500
Distributions to non-controlling interest	**(500)**	(800)
Payment of finance leases	**(198)**	(99)
Finance costs paid	**(8,340)**	(16,021)
	48,812	(20,958)
Investing activities		
Purchase of intangible assets	**(651)**	-
Purchase of property, plant and equipment (note 20)	**(72,056)**	(13,350)
Proceeds from sale of property, plant and equipment	**25**	100
	(72,682)	(13,250)
Foreign exchange gain (loss) on cash position held in foreign currency	**(279)**	68
Increase (decrease) in cash	**6,796**	(3,524)
Cash position, beginning of year	**12,112**	15,636
Cash position, end of year	**$ 18,908**	$ 12,112

See accompanying notes to consolidated financial statements

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

1. Reporting entity

Pinnacle Renewable Holdings Inc. (the "Company"), was incorporated on December 6, 2010 under the laws of the Province of British Columbia and is domiciled in Canada. The Company's registered office is at 350 - 3600 Lysander Lane, Richmond, British Columbia.

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 in the Province of British Columbia including Quesnel, Armstrong, Williams Lake, Burns Lake, Meadowbank, Houston and Lavington. The Company also owns and operates the Westview port facility at Prince Rupert for the storage, handling and loading of the Company's and third party wood pellets. The Company is currently constructing a plant in Entwistle, Alberta and has started development of a plant in Smithers, British Columbia.

Subsequent to December 29, 2017, the Company completed an Initial Public Offering and Secondary Offering and became a listed entity in Canada (see note 29).

2. Basis of preparation

a) Statement of compliance and basis of measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2018.

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

b) Basis of consolidation

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

	Country of residence	Economic ownership	Voting %	Method of accounting
Pinnacle Renewable Energy Inc.	Canada	100%	100%	Consolidated
Pinnacle Pellet Houston Inc.	Canada	100%	100%	Consolidated
Houston Pellet Inc.	Canada	33%	33%	Equity
Houston Pellet Limited Partnership	Canada	30%	30%	Equity
Lavington Pellet Inc.	Canada	75%	75%	Consolidated
Lavington Pellet Limited Partnership	Canada	75%	75%	Consolidated
Smithers Pellet Inc.	Canada	70%	70%	Consolidated
Smithers Pellet Limited Partnership	Canada	70%	70%	Consolidated

2. Basis of preparation (continued)

c) Functional currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency as it is the primary economic environment in which it operates.

d) Use of estimates and judgments

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

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

Judgments

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

Note 8 – Goodwill: determination of appropriate cash generating units; and,
Note 25 – Commitments, Leases: whether an arrangement contains a lease.

Assumptions about estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending December 29, 2017 is included in the following notes:

Note 5 – measurement of net realizable value of inventory: key fibre volume measurement assumptions;
Note 8 – impairment test of goodwill: key assumptions underlying recoverable amounts;
Note 10 – determination of the fair value of debt and equity components of convertible debentures on the basis of significant unobservable inputs;
Note 11 – determination of the fair value of common shares classified as liabilities on the basis of significant unobservable inputs;
Note 12 – Recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources; and,
Note 18 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used.

3. Significant accounting policies

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

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

a) Subsidiaries

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

b) Non-controlling interests

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

c) Investment in associates (equity accounted investees)

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

d) Transactions eliminated on consolidation

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

3. Significant accounting policies (continued)

e) Foreign currency translation

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

f) Cash and cash equivalents

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

g) Accounts receivable

Accounts receivable are measured at cost. The Company evaluates accounts receivable for impairment to determine if an allowance for doubtful accounts is required. A specific allowance is recorded against customer receivables based on the evaluation of the customers' credit worthiness and knowledge of their financial condition. The provision expense is included in selling, general and administration cost in net profit (loss). When a receivable is considered permanently uncollectible, the receivable is written off against the allowance account.

h) Inventory

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

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

3. Significant accounting policies (continued)

i) Property, plant and equipment

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

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

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

j) Leases

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

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

3. Significant accounting policies (continued)

k) 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.

l) 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.

m) Impairment

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. Goodwill is tested annually for impairment.

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 recognised in net profit (loss). They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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

3. Significant accounting policies (continued)

m) Impairment (continued)

Financial assets

Financial assets not carried at fair value through profit (loss), including an interest in an equity investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. When an event occurs after the impairment was recognized that causes the amount of impairment loss to decrease, the decrease in impairment loss is recognized in net profit (loss).

n) Income taxes

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

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

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

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

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

o) Provisions

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

3. Significant accounting policies (continued)

p) 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.

q) Revenue recognition

Revenue from finished wood pellet sales is measured at the fair value of the consideration received or receivable (net of returns, trade discounts and volume rebates) and when the risks and rewards of ownership are transferred to the customer, which is generally when the product is loaded on the shipping vessel. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that significant risks and rewards of ownership have been transferred to the buyer and there is no continuing management involvement with the goods, collection of the relevant consideration is probable, the revenue can be measured reliably, and associated costs and possible return of goods can be estimated reliably, all of which generally precede products being loaded.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the Company are reported as a component of distribution costs.

r) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consist of cash, trade and other receivables, loans and borrowings, trade and other payables, debentures payable, and common and preferred shares classified as liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net profit (loss), any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to recognize the total costs of or profit from a financial instrument over the life of the instrument. Cash and cash equivalents and accounts receivable are included in this category.

- Financial liabilities at fair value through net profit (loss) – An instrument is classified at fair value through net profit (loss) if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net profit are measured at fair value, and changes therein are recognized in net profit (loss), with attributable transaction costs being recognized in net profit (loss) when incurred. The management held Class B and Class D common shares liability is included in this category.

3. Significant accounting policies (continued)

r) Financial instruments (continued)

- Financial liabilities measured at amortized cost – Financial liabilities not classified as fair value through net profit (loss) are recorded at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, revolver loan and term debt, and shareholders' debentures payable are included in this category. Deferred financing costs relating to the issuance of financial liabilities measured at amortized costs are recorded as a reduction to the cost of the related debt which is amortized to net profit (loss) using the effective interest rate method.

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 U.S. dollar sales. 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 net profit (loss). The fair value of the derivatives is determined with reference to period-end market trading prices for derivatives with comparable characteristics.

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

Compound financial instruments

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

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

3. Significant accounting policies (continued)

s) Finance costs

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

t) Business combinations

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

u) 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.

v) Stock-based compensation

The Company has a stock option plan as described in Note 16. 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.

3. Significant accounting policies (continued)

w) Earnings per share

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

x) Accounting standards adopted in 2017

In January 2016, the IASB issued amendments to IAS 7 *Statements of Cash Flows* that require additional disclosures about changes to an entity's financing liabilities arising from both cash and non-cash flow items. These changes are effective for annual periods on or after January 1, 2017. The Company implemented these amendments and provides disclosure in these consolidated financial statements.

y) Accounting standards issued but not yet effective

The IASB has issued the following standards that are not yet effective and are relevant to the Company.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB as a replacement for IAS 18, Revenue. The Standard establishes a single, principles based five-step model to be applied to all contracts with customers and provide useful information to users of financial statements about the nature, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Standard is effective for annual periods beginning on or after January 1, 2018. The Company has completed an assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements and this standard will not materially impact the Company.

IFRS 9 – Financial Instruments

IFRS 9, Financial Instruments, was issued in July 2014 by the IASB as a replacement for IAS 39, Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. The Standard is effective for annual periods beginning on or after January 1, 2018. The Company has completed its assessment on the potential impact of the adoption of IFRS 9 on its consolidated financial statements and this standard will not materially impact the Company.

IFRS 16 – Leases

IFRS 16, Leases, was issued in January 2016 by the IASB as a replacement for IAS 17, Leases. The Standard introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. The Standard is effective for annual periods beginning on or after January 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined but conceptually will result in significant operating leases recorded on the Company's statement of financial position.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

4. Accounts receivable

As at	December 29, 2017	December 30, 2016
Trade accounts receivable	$ 14,503	$ 17,189
Other receivables	25,965	6,454
Amounts receivable from related parties (note 21)	785	1,103
	$ 41,253	$ 24,746

Included in other receivables is $14,590 (2016 - $5,046) of accrued sales which were invoiced in early January.

5. Inventory

As at	December 29, 2017	December 30, 2016
Wood pellets	$ 6,479	$ 7,900
Fibre	6,764	8,639
Supplies and spare parts	4,466	3,883
	$ 17,709	$ 20,422

The measurement of inventory involves the use of assumptions and estimates including volume measurement of fibre inventory by external surveyors, conversion factors, composition, contamination estimates and other factors. Management has assessed that, considering the sources of uncertainty; valuation of fibre inventory is expected to be reasonably accurate within +/- 10%.

The above inventory balances include adjustments to measurement estimates and to net realizable value which results in write-ups and write-downs. In the year ended December 29, 2017, inventory reflects a net write-up of $594 (2016 - write-down of $1,464). These adjustments are included in production costs in net profit (loss).

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

6. Property, plant and equipment

	Land and buildings	Machinery and other equipment	Construction in progress	Leasehold improvements	Total
Balance, beginning of fiscal year	$ 45,933	$ 108,550	$ 3,204	$ 18,162	$ 175,849
Additions	6,632	3,004	75,934	-	85,570
Amortization	(2,928)	(14,787)	-	(1,189)	(18,904)
Disposals and retirements	-	(1,058)	-	(16)	(1,074)
Impairment loss	(1,000)	(2,245)	-	-	(3,245)
Transfer from construction in progress	725	9,625	(10,721)	371	-
Balance, December 29, 2017	**$ 49,362**	**$ 103,089**	**$ 68,417**	**$ 17,328**	**$ 238,196**
Cost	$ 66,654	$ 183,483	$ 68,417	$ 22,590	$ 341,144
Accumulated amortization	(17,292)	(80,394)	-	(5,262)	(102,948)
Balance, December 29, 2017	**$ 49,362**	**$ 103,089**	**$ 68,417**	**$ 17,328**	**$ 238,196**

	Land and buildings	Machinery and other equipment	Construction in progress	Leasehold improvements	Total
Balance, beginning of fiscal year	$ 49,898	$ 117,726	$ 738	$ 18,900	$ 187,262
Additions	-	879	10,604	-	11,483
Amortization	(2,880)	(14,195)	-	(1,167)	(18,242)
Disposals and retirements	(2,544)	(2,110)	-	-	(4,654)
Transfer from construction in progress	1,459	6,250	(8,138)	429	-
Balance, December 30, 2016	**$ 45,933**	**$ 108,550**	**$ 3,204**	**$ 18,162**	**$ 175,849**
Cost	$ 59,297	$ 170,908	$ 3,204	$ 22,219	$ 255,628
Accumulated amortization	(13,364)	(62,358)	-	(4,057)	(79,779)
Balance, December 30, 2016	**$ 45,933**	**$ 108,550**	**$ 3,204**	**$ 18,162**	**$ 175,849**

See note 20 for supplemental cash flow information.

During the year ended December 29, 2017, capitalized borrowing costs related to construction in progress amounted to $940 (2016 - nil) with an average capitalization rate of 4.8% for 2017.

On September 25, 2017, the Company made the decision to permanently close its Quesnel plant due to current market conditions, principally due to regional fibre availability. The Company reviewed the assets of the Quesnel plant to determine the recoverable value and recognized an impairment loss of $3,245. As at December 29, 2017, the Quesnel plant has a net book value of $802 (2016 - $5,085). In 2017, the Company expensed $1,381 (2016 - $1,591) to maintain the assets while the Company evaluates its future action.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

7. Investment in Houston Pellet Limited Partnership ("Houston Pellet LP")

Houston Pellet LP manufactures wood pellets for sale to external customers and the Company. The investment in Houston Pellet LP has been accounted for under the equity basis. The following table summarizes the financial information of Houston Pellet LP and reconciles the Company's carrying value and its share of net profit (loss):

Percentage ownership interest	**30%**	30%
As at	**December 29, 2017**	December 30, 2016
Current assets	**$ 17,616**	$ 15,595
Non-current assets	**8,544**	8,885
Current liabilities	**(2,516)**	(3,189)
Net assets	**$ 23,644**	$ 21,291
Company's share of net assets	**7,093**	6,387
Goodwill	**1,823**	1,823
Investment in Houston Pellet LP	**$ 8,916**	$ 8,210

Fiscal year ended	**December 29, 2017**	December 30, 2016
Revenue	**$ 30,750**	$ 28,501
Expense	**(24,503)**	(22,785)
Amortization	**(1,337)**	(1,762)
Gain on settlement of legal claims	**-**	16,250
Loss on disposal of property and equipment	**(308)**	(1,288)
Net Profit	**4,602**	18,916
Company's share of net profit	**$ 1,381**	$ 5,675

On June 28, 2016, Houston Pellet LP settled various legal claims with a logistics terminal located in Northern British Columbia related to unloading, storage, handling and shipping services for wood pellets manufactured by Houston Pellet LP. Settlement funds of $16,250 were paid to Houston Pellet LP in the third quarter of 2016. Certain machinery and equipment involved in the settlement were impaired resulting in approximately $800 in impairment charges recorded by Houston Pellet LP.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

8. Goodwill and Intangible Assets

	Goodwill	Customer relationships	Supply agreements	Other	Total
Balance, December 25, 2015	$ 97,482	$ 7,261	$ 5,274	$ 438	$ 110,455
Additions	-	-	-	-	-
Amortization	-	(1,696)	(1,231)	(44)	(2,971)
Balance, December 30, 2016	97,482	5,565	4,043	394	107,484
Additions	-	-	651	-	651
Amortization	-	(1,663)	(1,209)	(43)	(2,915)
Balance, December 29, 2017	**$ 97,482**	**$ 3,902**	**$ 3,485**	**$ 351**	**$ 105,220**
At December 30, 2016					
Cost	$ 97,482	$ 15,000	$ 10,900	$ 779	$ 124,161
Accumulated amortization	-	(9,435)	(6,857)	(385)	(16,677)
Net book value at December 30, 2016	$ 97,482	$ 5,565	$ 4,043	$ 394	$ 107,484
At December 29, 2017					
Cost	$ 97,482	$ 15,000	$ 11,551	$ 779	$ 124,812
Accumulated amortization	-	(11,098)	(8,066)	(428)	(19,592)
Net book value at December 29, 2017	**$ 97,482**	**$ 3,902**	**$ 3,485**	**$ 351**	**$ 105,220**

The Company as a whole is identified as the CGU to which goodwill has been assigned. The recoverable amount of the Company represents its enterprise value which is a weighted average of the Company's discounted future cash flows and a valuation determined on market based earnings multiples. The discounted cash flow is based on the Company's long-term forecast from 2018 – 2022 including the estimated impact of future capital projects and a terminal value calculated at a perpetual growth rate of 2.5% (2016 - 2.5%) beyond 5 years. The estimate of future cash flows requires management to make assumptions based on existing customer and supplier contracts, future production levels and operating and capital costs. The discount rate applied in 2017 ranged from 10.3% - 12.8% (2016 - 10.1% to 12.6%) and is based on the Company's estimate of its cost of capital. The market based earnings multiples are those of current multiples of comparable companies in the pellet, renewable energy and forestry sectors.

Changes in any of the assumptions or estimates used in determining the recoverable value could impact the impairment analysis. Based on management's analysis, no impairment of goodwill was identified in 2017 or 2016.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

9. Revolver loan and term debt

As at	December 29, 2017	December 30, 2016
Revolver loan (a)	$ 22,000	$ 7,100
Non-revolving loans		
Term loan (b)	180,000	160,000
Delayed draw term loan (c)	20,000	-
	222,000	167,100
Less:		
Current portion	(6,000)	(1,600)
Revolver loan shown as current	(22,000)	(7,100)
Deferred financing costs	(3,187)	(2,830)
	$ 190,813	$ 155,570

On December 13, 2017, the Company amended its senior secured debt (existing term loan, delayed draw term loan, and revolving operating line). The amended facility from nine lenders through a syndicated loan agreement provides up to a $50,000 revolving operating line, a $200,000 term loan, and a $130,000 delayed draw term loan (the "Facility"). The Facility has a maturity date of December 13, 2022.

Advances under the 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 and is payable monthly at the applicable Bank Prime, BA, US Base or LIBOR rates 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% for Prime/US Base and BA/LIBOR loans, respectively and a maximum margin of 3.00% and 4.00%, respectively.

At December 29, 2017, the $180,000 term loan and the revolver loan were in Canadian dollar Prime loans at 5.70% and the $22,000 delayed draw term loan was in a Canadian dollar BA loan at 4.86%. At December 30, 2016, the $160,000 term loan was in a Canadian dollar BA loan at 4.42% and the revolver loan was in a Canadian dollar Prime loan at 5.20%. At December 29, 2017, the Company had issued letters of credit totaling $530 (2016 - $405).

EBITDA and Adjusted EBITDA are defined in the Facility agreement and used in the calculation of debt covenants and interest rate margins. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. As at December 29, 2017 and December 30, 2016, 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's subsidiary, Pinnacle Renewable Energy Inc.

In the fiscal year ended December 29, 2017, unamortized deferred financing fees in the amount of $496 (2016 - $346) pertaining to the previous senior secured debt facility were expensed in net profit (loss) at the date of the amendment. Transaction costs pertaining to the amended Facility had been deferred in the amount of $1,331 (2016 - $1,896) and are being amortized in net profit (loss).

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

9. Revolver loan and term debt (continued)

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

2018	$	6,000
2019		9,500
2020		14,500
2021		24,000
2022		146,000
Total	$	200,000

The Facility has authorized credit and repayment terms as follows:

a) Revolver loan

The Company may borrow up to $50,000 (2016 - $50,000) under the revolver loan with a maximum of $5,000 (2016 - $5,000) for letters of credit. The revolver loan is to be used for operating purposes and is expected to be repaid within the year, and therefore has been presented as a current liability.

b) Term loan

The Company may borrow up to $200,000 (2016 - $160,000) under the non-revolving term loan and as at December 29, 2017 had borrowed $180,000 (2015 - $160,000). The Company is required to make principal payments on the term loan in installments on the last day of each fiscal quarter as follows: (i) $2,000 on March 31, 2018 to December 31, 2018, inclusive, (ii) $2,500 on March 31, 2019 to December 31, 2019, inclusive, (iii) $4,000 on March 31, 2020 to December 31, 2020, inclusive and (iv) $5,000 on March 31, 2021 to December 31, 2021, inclusive (v) $6,000 on March 31, 2022 to September 30, 2022. The remaining balance is due on December 13, 2022.

c) Delayed draw term loan

The Company may borrow up to $130,000 (2016 - $90,000) under the non-revolving delayed draw term loan and at December 29, 2017 had borrowed $20,000 (2016 - $nil). Advances under this loan may be made in multiple advances and are available to be drawn until December 31, 2019. The Company is required to make quarterly principal installments equal to (i) 2.0% of the principal amount of the loan for each repayment date occurring during or before December 31, 2020, (ii) 2.50% of the principal amount of the loan for each repayment date occurring after December 31, 2020 but during or before December 31, 2021, and (iii) 3.0% of the principal amount of the loan for each repayment date occurring after December 31, 2021 but during or before September 30, 2022. The remainder of the drawn amount is due on December 13, 2022.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

10. Shareholders' debentures payable

As at		December 29, 2017		December 30, 2016
Convertible debentures at face value	**$**	**60,000**	$	60,000
Accrued interest debentures at face value		**49,570**		49,570
Effective interest rate adjustment on convertible debentures		**(48,364)**		(56,361)
		61,206		53,209
Subordinated debentures at face value		**15,000**		15,000
Accrued interest on subordinated debentures		**13,571**		9,535
		28,571		24,535
		89,777		77,744
Less: current interest payable in other current liabilities		**(896)**		(772)
	$	**88,881**	$	76,972

The ONCAP entities ("ONCAP") collectively own 60% of the Company and is the Company's controlling parent. ONCAP holds convertible debentures totaling $60,000 which were issued on May 6, 2011. Interest was payable on the debentures in quarterly installments of 14.00% for the first five years subject to reinvestment noted below; thereafter, interest payments and accruals are not charged. The interest decreased to 10.00% as of February 16, 2014 as a result of the Company having shipped 30,000 MTs of pellets from Westview. ONCAP agreed to re-invest any interest otherwise payable into interest debentures and thus all scheduled interest payments have been capitalized to accrued interest

On issuance on May 6, 2011, the convertible debentures were bifurcated between debt and equity based on their estimated fair values. The debt fair value was determined to be $33,681 and the equity fair value $26,319. The debt was being accreted to its face value of $60,000 on maturity at May 6, 2019 using an effective interest rate of approximately 15.87%. The inputs used in the Black Scholes option model included an exercise price of $1, an underlying share price of $1, a risk free interest rate of 3.20%, volatility of 31.2% and a life of 8 years.

On November 29, 2016, the Company and ONCAP modified the convertible debenture agreement by extending the maturity date to January 31, 2022. No interest is charged over this additional 21 months. This modification resulted in a substantial modification to the convertible debentures resulting in an extinguishment of the existing debentures and an issuance of new debentures for accounting purposes. The fair value of the debt decreased by $21,298 resulting in a gain recorded in the statement of net profit (loss). The fair value of the equity conversion feature increased by $8,894 which was recorded by transfer from the equity portion of the convertible debentures to deficit. The fair value of the debt was determined using a nominal interest rate of 14% determined based on the change in the Company's credit risk since the debt was originally issued and the change in benchmark interest rates over the same period and translated into an effective rate of 14.75%. The fair value of the conversion feature was determined using a Black Scholes option pricing model with an exercise price of $1, an underlying share price of $1.39 (consistent with the Company's valuation done for the Class B shares), a risk free interest rate of 0.95%, volatility of 31.2% and a life of 5.18 years.

ONCAP and other minority shareholders also hold subordinated debentures totaling $15,000 with an 18.00% interest rate. On an annual basis prior to the interest payment date in April, each lender can elect to have 5/18th of the interest payment paid in cash with the remaining interest reinvested. If no election is made, the total interest amount is reinvested. These debentures mature on January 31, 2022.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

11. Common and preferred share classified as liabilities

As at			December 29, 2017		December 30, 2016
Class B common shares	5,500,000 shares; cost of $5,500	**$**	**17,215**	$	12,540
Class D common shares	1,172,414 shares; cost of $1,550		**3,646**		2,170
Class H preferred shares	5,004,000 shares; cost of $5,055		**5,131**		5,055
		$	**25,992**	$	19,765

The Company's management holds Class B and Class D common shares. These shares contain features that may require future settlement in cash and Class D shares have a put right enabling shareholders to put their Class D shares to the Company on death or disability at the greater of cost or fair value. Therefore, 5,500,000 of the Class B shares are measured at fair value and all of the Class D shares are measured at the greater of cost or fair value. The fair value measurements for these classes of shares, which are presented as a liability, are dependent on the underlying fair value of the enterprise as a whole, using estimates consistent with the Goodwill Impairment testing (see note 8). Based on this estimate, the fair value of Class B common shares has increased to $3.13/share as of December 29, 2017 (2016 - increased to $2.28/share). The value of Class D common shares has increased to $3.11/share (2016 - increased to $2.17/share). The resulting revaluation loss of $5,601 is recorded in net profit (loss) (2016 - loss of $10,278).

Class H preferred shares accrue dividends at 4.5% (see note 13) and 3.0% is paid quarterly. The difference of 1.5% is added to their carrying value. During 2016, the Company altered its authorized share structure by authorizing an unlimited number of Class H preferred shares without par value. In connection with the retirement of an employee, 5,004,000 Class H shares were issued in exchange for 5,000,000 Class B shares and 1,000,000 Class F shares. The aggregate fair market value of the shares exchanged, less a discount of 10%, was $5,004. The Class B shares and Class F shares exchanged were cancelled and a loss of $572 recognized.

12. Other long-term liabilities

As at		December 29, 2017		December 30, 2016
Decommissioning liabilities	**$**	**2,192**	$	1,854
Derivative financial instruments		**218**		-
Other		**1,047**		297
	$	**3,457**	$	2,151

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. During 2016, the Company re-estimated the decommissioning liabilities for Lavington Plant based on additional facts and circumstances to more accurately reflect the expected future costs.

As at		December 30, 2016	Change in Provision		Change in Discounted Amount		December 29, 2017
Plants	$	607	-	$	138	**$**	**745**
Port Facility		997	-		173		**1,170**
Rail cars		250	-		27		**277**
Total decommissioning liabilities	$	1,854	-	$	338	**$**	**2,192**

12. 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. Due to the long-term nature of the liability, there is significant uncertainty regarding eventual costs required to restore the site to its original condition and a $700 decommissioning cost was provided as management's best estimate. The decommissioning cost was discounted at 2.26% (2016 – 2.31%) which is the Government of Canada long-term bond yield risk-free rate. In addition, provisions have been provided for personal property and fixtures removal for the plants at Armstrong and Williams Lake at the end of their lease terms in accordance with the Company's lease agreements.

Port Facility

In accordance with the associated lease agreement with the Prince Rupert Port Authority, the Company has an obligation to dismantle certain aspects of the Westview port facility at the end of the lease term. The lease term is 21 years ending September 30, 2033 with an option to extend for 10 years. The Company included a provision for the dismantling costs of $1,200 which is management's best estimate. The discount rate of 2.26% (2016 – 2.31%) 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.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

13. Shareholders' equity

a) The authorized share capital of the Company consists of the following:

- Unlimited Class A common participating, voting shares, without par value
- Class A common shares issued share in the residual assets of the Company and they provide the holders an additional preferred return of 7.5% on returns upon a liquidation that are in excess of 3 times the invested capital.
- Unlimited Class B common participating, voting shares, without par value
- Unlimited Class C common participating, voting shares, without par value
- Unlimited Class D common participating, voting shares, without par value
- Unlimited Class E preferred participating, voting shares without par value accrue cumulative dividends at 14% for the first five years after the share issuance date; thereafter dividends will be fixed and will not increase. Rate will decrease to 10% when certain operational targets are achieved, which occurred in 2014.
- Unlimited Class F preferred participating, non-voting shares without par value, accrue cumulative dividends at 4.5%. Redeemable at the option of the Company for the issuance amount plus all dividends accrued or declared and unpaid. A mandatory redemption occurs on an initial public offering for the issuance amount plus all dividends accrued or declared unpaid.
- Unlimited Class G preferred participating, non-voting shares without par value, accrue cumulative dividends at 4.5%. Redeemable at the option of the Company for the issuance amount plus all dividends accrued or declared and unpaid. A mandatory redemption occurs on an initial public offering for the issuance amount plus all dividends accrued or declared unpaid.
- Unlimited Class H preferred participating, non-voting shares without par value, accrue cumulative dividends at 5.0%. Redeemable at the option of the Company for the issuance amount plus all dividends accrued or declared and unpaid. A mandatory redemption occurs on an initial public offering for the issuance amount plus all dividends accrued or declared unpaid or November 30, 2020.

b) The issued share capital of the Company consists of the following:

As at		**December 29, 2017**		December 30, 2016
Common shares				
25,000,000 Class A shares	**$**	**25,000**	$	25,000
4,500,000 Class B shares		**4,500**		4,500
5,500,000 Class B shares presented as a liability (note11)		**-**		-
1,172,414 Class D shares presented as a liability (note11)		**-**		-
	$	**29,500**	$	29,500
Preferred shares				
500,000 Class E shares		**500**		500
19,000,000 Class F shares		**19,000**		19,000
8,600,000 Class G shares		**8,505**		8,505
5,004,000 Class H shares presented as a liability (note 11)		**-**		-
	$	**28,005**	$	28,005

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

14. Non-controlling Interests

The following table summarizes the non-controlling financial information relating to Lavington Pellet Limited Partnership (LPLP) and Smithers Pellet Limited Partnership (SPLP) before inter-company eliminations:

Fiscal year ended	**December 29, 2017**			December 30, 2016		
Non-controlling interest percentage	LPLP 25%	SPLP 30%	**Total**	LPLP 25%	SPLP 30%	Total
Current assets	$ 8,703	$ 1,828	**$ 10,531**	$ 7,300	-	$ 7,300
Non-current assets	40,610	9,417	**50,027**	42,191	-	42,191
Current liabilities	(3,650)	(3,245)	**(6,895)**	(3,667)	-	(3,667)
Non-current liabilities	(970)	-	**(970)**	(542)	-	(542)
Net assets	$ 44,693	$ 8,000	**$ 52,693**	$ 45,282	-	$ 45,282
Net assets attributable to NCI	$ 11,173	$ 2,400	**$ 13,573**	$ 11,320	-	$ 11,320
Revenue	$ 42,015	-	**$ 42,015**	$ 38,378	-	$ 38,378
Net income	1,412	-	**1,412**	3,464	-	3,464
Net income allocated to NCI	$ 353	-	**$ 353**	$ 866	-	$ 866
Cash flows from operating activities	$ 3,365	$ -	**$ 3,365**	$ 4,965	-	$ 4,965
Cash flows from investing activities	(2,117)	(6,400)	**(8,517)**	(1,759)	-	(1,759)
Cash flows from financing activities	(2,020)	8,000	**5,980**	(1,200)	-	(1,200)
Net increase (decrease) in cash and cash equivalents	$ (772)	$ 1,600	**$ 828**	$ 2,006	-	$ 2,006

15. Expenses by nature and function

Included in production, distribution and selling, general and administrative costs are the following employee benefit expenses [(1)]:

Fiscal year ended	**December 29, 2017**	December 30, 2016
Production	**$ 16,527**	$ 17,045
Distribution	**2,972**	2,455
Selling, general and administration	**7,964**	6,985

(1) Employee benefit expense for the year ended December 29, 2017 includes stock-based compensation of $237 (2016 - $138). (note 16)

Amortization of equipment and intangibles allocated by function are as follows:

Fiscal year ended	**December 29, 2017**	December 30, 2016
Production	**$ 14,145**	$ 13,031
Distribution	**3,824**	3,842
Selling, general and administration	**3,850**	4,338
	$ 21,819	$ 21,211

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

16. Stock based compensation

The Company has a stock option plan (the "Plan") under which the Board of Directors may grant options to Directors, officers, employees and consultants of the Company at a price not less than the market value of the shares on the day of the grant and for a term not exceeding 10 years. A total of 9,045,000 Class D common shares (2016 - 9,045,000) have been reserved for issuance under the Plan. Options granted vest at a rate of 20% per year from the date of grant.

Details of options issued and outstanding are as follows:

	Number of options	Weighted average exercise price ($)	Remaining life (years)
Outstanding, December 25, 2015	7,775,000	1.00	6.2
Options forfeited/cancelled	(997,000)	1.00	4.5
Options granted	-	-	-
Outstanding, December 30, 2016	6,778,000	1.00	5.3
Options forfeited/cancelled	-	-	-
Options granted	1,200,000	3.19	9.8
Outstanding, December 29, 2017	7,978,000	1.33	5.1

The number of options exercisable at December 29, 2017 was 6,446,782 (2016 – 5,932,497). 1,200,000 options were issued in the year ended December 29, 2017 (2016 – nil). The 2017 grant date value was calculated using the Black-Scholes option pricing model using a weighted average share price and exercise price of $3.19, an expected volatility rate of 33.11%, which was based on comparable entities, a 1.9% expected risk-free rate and a nil dividend yield. A total of $237 (2016 - $138) in stock-based compensation expense was recognized for the year ended December 29, 2017. Contributed surplus on the statement of financial position relates to accrued stock based compensation.

17. Finance costs

a) Finance costs excluding shareholders' debentures

Fiscal year ended	**December 29, 2017**	December 30, 2016
Interest on revolver loan, term debt and delayed draw loan	**$ 7,425**	$ 8,539
Fair value (gain)/loss on derivatives	**1,566**	(1,374)
Realized (gain)/loss on derivatives	**(135)**	(327)
Unrealized (gain)/loss on foreign exchange	**(268)**	402
Realized loss on foreign exchange	**436**	155
Amortization of deferred financing fees	**1,094**	866
Other	**1,774**	983
	$ 11,892	$ $9,244

b) Finance costs on shareholders' debentures

Fiscal year ended	**December 29, 2017**	December 30, 2016
Interest on debentures (note 10)	**$ 12,359**	$ 13,054
Gain on modification of debentures (note 10)	-	(21,298)
	$ 12,359	$ ($8,244)

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

18. Income taxes

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

Fiscal year ended	**December 29, 2017**	December 30, 2016
Income tax recovery (expense) at statutory rates	**$ 1,133**	$ (2,817)
(Increase) decrease related to		
Permanent differences and other	**(1,298)**	(2,754)
Change in tax rates	**(361)**	-
	(526)	(5,571)
Classified as		
Current	**-**	(2)
Deferred	**(526)**	(5,569)
Income tax expense	**$ (526)**	$ (5,571)

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

Deferred tax assets	Non-capital losses	Provisions	Transaction costs	Other	Total
Balance, December 30, 2016	$ 30,014	$ 588	$ 637	$ 54	$ 31,293
Increase (decrease) to earnings	(3,979)	263	776	103	(2,837)
Balance, December 29, 2017	**$ 26,035**	**$ 851**	**$ 1,413**	**$ 157**	**$ 28,456**

Deferred tax liabilities	Property, plant and equipment	Convertible debentures	Intangible assets	Deferred financing costs	Other	Total
Balance, December 30, 2016	$ (22,407)	$ (14,337)	$ (2,601)	$ (739)	$ (351)	$ (40,435)
Increase (decrease)	213	1,607	687	(449)	253	2,311
Balance, December 29, 2017	**$ (22,194)**	**$ (12,730)**	**$ (1,914)**	**$ (1,188)**	**$ (98)**	**$ (38,124)**
Net deferred tax liability at December 30, 2016						$ (9,142)
Net deferred tax liability at December 29, 2017						**$ (9,668)**

At December 29, 2017, the Company has $96,425 (2016 - $115,439) of unused non-capital loss carry forwards expiring between 2032 and 2037 to reduce future taxable income.

During 2017, the province of British Columbia increased its general corporate tax rate from 11% to 12%. As at December 29, 2017, this rate change is substantively enacted and the Company recognized a $361 income tax expense for the fiscal year ended December 29, 2017.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

19. Earnings per share

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

	December 29, 2017	December 30, 2016
Net profit (loss) for the year attributable to owners	**$ (5,237)**	$ 4,396
Cumulative preferred dividends	**(1,242)**	(1,254)
	$ (6,479)	$ 3,142
Weighted average shares (thousands)		
Class A	**25,000**	25,000
Class B	**4,500**	4,500
Basic and diluted net income (loss) per share		
Class A	**$ (0.22)**	$ 0.11
Class B	**$ (0.22)**	$ 0.11

For 2016, adjustments for the convertible debentures would include removing the gain on modification of $21,298, making the impact of conversion anti-dilutive. For options, the average fair value of the common shares approximated the exercise price, such that any additional shares under the treasury stock method are not material.

20. Supplemental cash flow information

Fiscal year ended	December 29, 2017	December 30, 2016
Accounts receivable	**$ (16,526)**	$ (18,312)
Inventory	**2,713**	(5,902)
Other current assets	**181**	(2,414)
Accounts payable and accrued liabilities	**(20,733)**	12,529
Other current liabilities	**14,182**	(27)
Net increase in working capital	**$ (20,183)**	$ (14,126)

Fiscal year ended	December 29, 2017	December 30, 2016
PPE additions during the year (note 6)	**$ 85,570**	$ 11,483
PPE additions from prior year paid during the year	**1,792**	3,713
PPE additions in accounts payable	**(15,306)**	(1,846)
Purchase of property, plant, and equipment	**$ 72,056**	$ 13,350

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

21. Related party transactions

Parent and ultimate controlling entity

The Company is controlled by ONCAP who effectively owns 60% of the Company. ONCAP is ultimately controlled by Onex Corporation. The Company's remaining shareholders are former owners or current employees of the Company. During 2017, the Company paid a monitoring fee to ONCAP of $500 (2016 - $500). The monitoring fee will continue until the earlier of one shareholder owning all the shares of the Company or an initial public offering.

Minority shareholder

During the year, the Company paid rent on a plant facility to a minority shareholder in the amount of $240 (2016 - $240). This amount is set-out in a lease agreement entered into in the normal course of business and on the same terms accorded to unrelated third parties.

Key management personnel compensation

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

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

Fiscal year ended	**December 29, 2017**	December 30, 2016
Base compensation and benefits	**$ 1,344**	$ 1,431
Annual bonus	**429**	331
Stock-based compensation	**218**	202
	$ 1,991	$ 1,964

Houston Pellet LP

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

Fiscal year ended	**December 29, 2017**	December 30, 2016
Purchases	**$ 24,030**	$ 21,715
Revenue	**3,560**	3,271
Management fee	**639**	728

As at	**December 29, 2017**	December 30, 2016
Amounts receivable	**$ 785**	$ 1,103
Amounts payable	**2,715**	2,676

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

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

21. Related parties (continued)

Lavington Pellet LP

Lavington Pellet LP is owned 75% by the Company and 25% by a non-related third party. The Company purchases industrial wood products from Lavington Pellet LP 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 Lavington Pellet LP.

Fiscal year ended	**December 29, 2017**	December 30, 2016
Purchases	**$ 42,015**	$ 38,378
Revenue	**556**	354

As at	**December 29, 2017**	December 30, 2016
Amounts receivable	**$ 491**	$ 282
Amounts payable	**4,839**	2,760

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

Smithers Pellet LP

On October 4, 2017, the Company entered into a limited partnership with a non-related third party for the acquisition and development of a wood pellet facility. Smithers Pellet LP is owned 70% by the Company and 30% by a non-related third party. On October 13, 2017, the Company contributed $5,600 and the non-related third party contributed $2,400 for the purchase of land, plant and equipment and intangible assets

22. Financial instruments

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and Class H preferred shares classified as liabilities are measured at amortized cost and approximate the fair values of these financial instruments due to their short terms to maturity. The revolver loan, term debt, and shareholders' debentures payable are measured at amortized cost and their fair value at December 29, 2017 was $356,954 (2016 - $298,352).

Derivative instruments, Class B common shares classified as liabilities and Class D common shares are carried at fair value. Financial instruments carried at fair value through net profit (loss) require classification of items within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

22. Financial instruments (continued)

The following table summarizes the Company's financial instruments measured at fair value at December 29, 2017 and December 30, 2016 and shows the fair value at which they have been classified:

	Fair value hierarchy level	**December 29, 2017**	December 30, 2016
Derivative financial instruments asset (liability)	Level 1	**$ (474)**	$ 1,092
Financial liabilities measured at fair value			
Class B common shares	Level 3	**17,215**	12,540
Class D common shares	Level 3	**3,646**	2,170
		$ 20,861	$ 14,710

The following table summarizes the fair value of the derivative financial instruments included in the statements of financial position:

As at	**December 29, 2017**	December 30, 2016
Other current assets	**$ -**	$ 864
Other long-term assets	**-**	228
Other current liabilities	**256**	-
Other long-term liabilities	**218**	-
	$ 474	$ 1,092

For the year ended December 29, 2017, the Company recognized a loss of $1,431 (2016 – gain of $1,701) on its derivative financial instruments in its net profit (loss) (note 17).

The fair value of Class B common shares and Class D common shares are determined on the same basis as the recoverable amount prepared for goodwill impairment testing (see note 8). This fair value determination requires significant management assumptions and accordingly these are classified as Level 3. The fair value of Class B shares was determined to be $3.13/share on December 29, 2017 (2016 - $2.28/share). The value of Class D shares was determined to be $3.11/share on December 29, 2017 (2016 - $2.17/share).

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values:

For fiscal years ended	
Balance at December 25, 2015	**$ 7,720**
Net change in fair value	10,278
Repurchase of Class D common shares	(3,288)
Balance at December 30, 2016	**14,710**
Issuance of Class D common shares	550
Net change in fair value	5,601
Balance at December 29, 2017	**$ 20,861**

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

23. Financial Risk and Capital Management

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

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash and accounts receivable. The Company managers its credit risk on cash by using major Canadian chartered banks for all cash deposits. The cash balance at December 29, 2017 is $18,908 (2016 - $12,112).

The Company manages its credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over $5,000. The significant majority of the Company's sales are contracted with large utility customers on which no impairment loss has been recognized during the fiscal years ended 2017 and 2016. As at December 29, 2017, a $98 balance (2016 - nil) is being monitored. The accounts receivable balance at December 29, 2017 is $41,253 (2016 - $24,746).

Liquidity risk

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

The contractual maturities of financial liabilities excluding future interest and shareholders' debentures and common and preferred shares at December 29, 2017 were as follows:

	Carrying amount	Contractual cash flows	3 months or less	3 - 12 months	More than 12 months
Non-derivative financial liabilities					
Revolver loan(i)(ii)	$ 22,000	$ 22,000	$ 22,000	$ -	$ -
Accounts payable and accrued liabilities	35,653	35,653	35,653	-	-
Term loan	176,813	180,000	-	6,000	174,000
Delayed draw loan	20,000	20,000	-	-	20,000

The contractual maturities of financial liabilities excluding future interest and shareholders' debentures and common and preferred shares at December 30, 2016 were as follows:

	Carrying amount	Contractual cash flows	3 months or less	3 - 12 months	More than 12 months
Non-derivative financial liabilities					
Revolver loan(i)(ii)	$ 7,100	$ 7,100	$ -	$ -	$ 7,100
Accounts payable and accrued liabilities	42,185	42,185	42,185	-	-
Term debt	157,170	160,000	-	1,600	158,400

(i) Classified as 3 months or less as due on demand; however, maturity of the Revolver loan is December 13, 2022 (2016 – December 16, 2021)
(ii) Cash balance as at December 29, 2017 is $18,908 (2016 - $12,112)

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

23. Financial Risk and Capital Management (continued)

At December 29, 2017, the Company has available liquidity of $44,313 (2016 - $51,414) from its debt facilities and forecasts sufficient liquidity throughout 2018. 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 net profit (loss) and that the future cash flows of a financial instrument will fluctuate due to changes in market prices.

Foreign currency

The Company's functional and reporting currency is the Canadian dollar. The Company's sales, operating and capital expenditures are primarily denominated and settled in Canadian dollars. The Company has exposure to the US dollar on its shipping costs, rail car leases and some capital purchases. The Company mitigates its exposure to the US dollar on its shipping costs by invoicing the shipping portion in US dollars and with a contract with its major shipping provider with a fixed US dollar to Canadian dollar exchange rate. The remaining exposure is mitigated by entering into a series of US dollar forward contracts matching the amount and timing of the estimated US dollar expenditures.

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

	Notional amount	Average forward rate	Less than 12 months	More than 12 months	Fair value asset (liability)
As at December 29, 2017	$ 73,564	1.259	$ 9,064	$ 64,500	$ (474)
As at December 30, 2016	$ 15,400	1.267	$ 12,000	$ 3,400	$ 1,092

Interest rate

The Company is exposed on interest rate risk through its debt facility including its revolver, term loan and delayed draw term loan which are subject to variable lending rates. Currently, the Company does not use financial instruments to manage this risk. A 1% change in interest rates would increase or decrease interest expense by $1,794 (2016 - $1,552).

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

24. 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 29, 2017**		December 30, 2016
External party debt (including revolver loan)	**$**	**222,000**	$	167,100
Shareholders' debentures payable		**88,881**		76,972
Common and preferred shares classified as liabilities		**25,992**		19,765
Less: cash		**(18,908)**		(12,112)
Net long-term obligations		**317,965**		251,725
Total equity (deficit)		**35,204**		37,951
Total capitalization	**$**	**353,169**	$	289,676

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 (see note 9). 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.

25. Commitments

Leases

The Company has lease commitments on certain vehicles, rail cars, land, office space and equipment. The total annual minimum lease payments are as follows:

		Finance Lease		**Operating Lease**
2018	$	561	$	8,509
2019		534		8,434
2020		557		6,990
2021		-		5,205
2022		-		3,202
Thereafter		-		22,189
	$	**1,652**	**$**	**54,529**

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 $22,514 at December 29, 2017 (2016 - $140).

(Amounts in thousands of Canadian dollars except number of shares and per share amounts)

26. 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, will 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 net profit (loss) in the period in which the settlement occurs.

27. Segmented information

The Company's operations consist of the production and sale of wood pellets, which constitutes a single operating segment.

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

Fiscal year ended	**December 29, 2017**	December 30, 2016
Europe	**$ 259,070**	$ 208,220
Asia	**18,325**	30,944
North America	**15,332**	27,174
Total Revenue	**$ 292,727**	$ 266,338

28. Economic dependence

The Company has certain European customers whose individual revenue represents 10% or greater of the Company's total revenue. For the fiscal year ended December 29, 2017, three of these customers represented 86% of the Company's total revenues. For the fiscal year ended December 30, 2016, two of these customers represented 79% of the Company's total revenue.

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

29. Subsequent event

Initial Public Offering and Secondary Offering

Pursuant to its final prospectus dated January 30, 2018, the Company completed an initial public offering and secondary offering ("Offering") on February 6, 2018 and listed its common shares on the Toronto Stock Exchange. The Offering is for a total of 13,335,000 common shares at $11.25 per share for gross proceeds of $150,019. The Offering includes a treasury offering of 6,223,889 common shares for gross proceeds of $70,019 and a secondary offering of 7,111,111 of common shares from existing shareholders for gross proceeds of $80,000. The Company received net proceeds of $37,591 which is net of underwriting fees of $3,851 and the repayment of its $28,577 subordinated debentures.

Prior to the completion of the Offering, the Company's share capital was amended to create an unlimited number of common shares and an unlimited amount of preferred shares, issuable in series. In connection with and immediately prior to the completion, the Company's pre-closing common and preferred shares and convertible debentures were converted to 26,679,332 common shares and no preferred shares were issued. The conversion of the convertible debentures and the Class B and Class D common shares carried at fair value to new common shares is expected to result in an estimated after-tax loss $12,600. All other pre-close common and preferred shares will be converted at their pre-close carrying value.

Upon closing of the Offering, the total issued and outstanding common shares are 32,903,221. Prior to the completion of the Offering, ONCAP was the Company's controlling parent. Upon completion of the Offering, ONCAP owns 14,112,787 or 42.9% of the issued and outstanding common shares.

Concurrent with the closing of the Offering, the Company's stock option plan was amended to comply with public company provisions as required by the Toronto Stock Exchange and that options issued and outstanding under the stock option plan will become exercisable for new common shares. Upon completion of the Offering, the Company will no longer grant options under the stock option plan.