THIS CIRCULAR AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or transferred all of your holding of Ordinary Shares in Drax Group plc, please forward this Circular and the accompanying documents (but not the personalised Form of Proxy or Form of Direction), as soon as possible, to the purchaser or the transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this Circular to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this Circular and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

You should read the whole of this Circular and all documents incorporated into it by reference in their entirety. Your attention is drawn to the letter from Philip Cox CBE, the Chair of Drax Group plc, which is set out in Part I of this Circular and which contains a unanimous recommendation from the Board of Drax Group plc that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Part II of this Circular entitled "Risk Factors" includes a discussion of certain risk factors which should be taken into account when considering the matters referred to in this Circular.

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drax

Drax Group plc

(Registered in England and Wales with registered number 5562053)

Proposed acquisition by Drax Group plc of Pinnacle Renewable Energy Inc.

and

Notice of General Meeting

A notice convening a General Meeting of Drax Group plc to be held at 4:30pm on 31 March 2021 at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK is set out at the end of this Circular. In light of COVID-19 restrictions and current prohibitions on public gatherings, attendance at the General Meeting shall be restricted and therefore Shareholders are strongly encouraged to vote electronically or to vote by proxy. If you wish to vote by proxy, you are asked to complete and return the Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by no later than 4:30pm on 29 March 2021. You can also appoint a proxy via the internet by accessing www.sharevote.co.uk or, if you have already registered with the Company's Registrar's online portfolio service, Shareview, via www.shareview.co.uk.

If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti Limited (CREST participant ID RA19) so that it is received by no later than 4:30pm on 29 March 2021.

For Share Incentive Plan participants, a Form of Direction is enclosed with this Circular and, if used, should be sent to the trustee, Equiniti Share Plan Trustee Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, to arrive by no later than 4:30pm on 26 March 2021.

The General Meeting is routinely an opportunity for Shareholders to ask questions of the Board in relation to the business of the General Meeting. The Company values Shareholder feedback and is keen to ensure that this dialogue continues, despite the challenges faced by COVID-19 and COVID-19 related restrictions. The Company will therefore be accepting Shareholders' questions for the General Meeting via the facility on the Company's website at www.drax.com/investors/disclaimer-proposed-acquisition-of-pinnacle-renewable-energy-inc-by-drax. The deadline for submitting questions is 5:00pm on 19 March 2021. The Company will look to post answers to questions received on the Company's website.

This document is a circular relating to the Acquisition which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority.

No person has been authorised to give any information or make any representations other than those contained in this Circular and, if given or made, such information or representations must not be relied on as having been so authorised. The delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of Drax Group plc since the date of this Circular or that the information in it is correct as of any subsequent time.

RBC Europe Limited ("**RBC**"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively for Drax and for no one else in connection with the Acquisition and will not regard any other person (whether or not a recipient of this Circular) as a client in relation to the Acquisition and will not be responsible to anyone other than Drax for providing the protections afforded to customers of RBC or for affording advice in relation to the Acquisition, the contents of this Circular or any transaction, arrangement or other matter referred to in this Circular.

Save for the responsibilities and liabilities, if any, of RBC under FSMA or the regulatory regime established under FSMA, RBC assumes no responsibility whatsoever and makes no representations or warranties, express or implied, in relation to the contents of this Circular, including its accuracy, completeness or verification or for any other statement made or purported to be made by Drax, or on Drax's behalf, or by RBC or on RBC's behalf, and nothing contained in this Circular is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with Drax or the Acquisition. RBC disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this Circular.

This Circular contains forward-looking statements relating to the Drax Group, the Pinnacle Group, the Enlarged Group and the Acquisition. Statements containing the words "intends", "believes", "anticipates", "may", "will", "estimates", "expects" and "outlook" and words of similar meaning are forward-looking. By their nature, all forward-looking statements are subject to assumptions, risks and uncertainties. Although Drax believes that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that these expectations will prove to have been correct and because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by those forward-looking statements. The preceding sentence does not qualify the statement in section 9 of Part VI (*Additional Information*) of this Circular. Each forward-looking statement speaks only as of the date of the particular statement. Drax does not undertake any obligation publicly to update or revise any forward-looking statement as a result of new information, future events or other information, although such forward-looking statements will be publicly updated if required by the Financial Conduct Authority, the Listing Rules and the Disclosure and Transparency Rules, the rules of the London Stock Exchange or by applicable law.

Percentages in tables have been rounded and accordingly may not add up to 100 per cent. Certain financial data have also been rounded. As a result of this rounding, the totals of data presented in this Circular may vary slightly from the actual arithmetic totals of such data.

Unless otherwise indicated, all references in this document, to "sterling", "pounds sterling", "GBP" and "£" are to the lawful currency of the United Kingdom. Drax prepares its financial statements in pounds sterling. Unless otherwise indicated, all references in this document to "US dollars", "USD", "USD$" or "US$" are to the lawful currency of the United States. Unless otherwise indicated, all references in this document to "Canadian dollars", "CAD", "CAD$" or "C$" are to the lawful currency of Canada. Pinnacle prepares its financial information in Canadian dollars and the financial information on Pinnacle presented in this document is presented in Canadian dollars unless otherwise indicated. Unless otherwise indicated, all references in this document to "euro", "EUR" or "€" are to the lawful currency of the EU.

The average exchange rates of Canadian dollars are shown relative to pounds sterling below. The rates below may differ from the actual rates used in the preparation of the financial statements and other financial information that appears elsewhere in this document. The inclusion of these exchange rates is for illustrative purposes only and does not mean that the pounds sterling amounts actually represent such Canadian dollar amounts or that such pounds sterling amounts could have been converted into Canadian dollars at any particular rate, if at all.

Average exchange rate of Canadian dollars relative to pounds sterling

Year	**Period End**	**Average**	**High**	**Low**
2018	0.5746	0.5786	0.6020	0.5452
2019	0.5807	0.5908	0.6287	0.5637
2020	0.5747	0.5814	0.6000	0.5565
1 January 2021 to 11 March 2021	0.5702	0.5716	0.5809	0.5628

Source: Bloomberg

Unless otherwise indicated, any conversion of any amount from Canadian dollars into pounds sterling is based on the exchange rate of £1:C$1.7.

Capitalised terms have the meaning ascribed to them in Part VII (*Definitions*) of this Circular.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Acquisition	8 February 2021
Interim Order of the Supreme Court of British Columbia in connection with the Plan of Arrangement obtained	1 March 2021
Date of this Circular	12 March 2021
Latest time and date for receipt of Forms of Direction	4:30pm on 26 March 2021
Latest time and date for receipt of Forms of Proxy or Crest Proxy Instructions	4:30pm on 29 March 2021
General Meeting	4:30pm on 31 March 2021
Pinnacle Shareholder Meeting	8:30am (Vancouver time) on 31 March 2021
Expected date of Final Order of the Supreme Court of British Columbia approving the Plan of Arrangement	6 April 2021
Long Stop Date for Completion	7 September 2021

NOTES:

Unless otherwise stated, references to times in this Circular are to London time.

Future dates are indicative only and are subject to change by Drax, in which event details of the new times and dates will be notified to the FCA and, where appropriate, Shareholders.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Philip Cox CBE	*Chair*
	Will Gardiner	*Chief Executive Officer*
	Andy Skelton	*Chief Financial Officer*
	David Nussbaum	*Senior Independent Non-Executive Director*
	Nicola Hodson	*Independent Non-Executive Director*
	Vanessa Simms	*Independent Non-Executive Director*
	John Baxter CBE	*Independent Non-Executive Director*
Group Company Secretary	Brett Gladden	
Registered office	Drax Power Station Selby North Yorkshire YO8 8PH	
Sponsor and financial adviser	RBC Europe Limited 100 Bishopsgate London EC2N 4AA	
Legal advisers (English law)	Slaughter and May One Bunhill Row London EC1Y 8YY	
Legal advisers (Canadian law)	Osler, Hoskin & Harcourt LLP 100 King St W Toronto, Ontario M5X 1B8 Canada	
Reporting accountants	Deloitte LLP 1 New Street Square London EC4A 3HQ	
Registrars	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA	

PART I
LETTER FROM THE CHAIR OF DRAX GROUP PLC

DRAX GROUP PLC
(Incorporated and registered in England and Wales with registered number 5562053)

Registered office:

Drax Group plc
Drax Power Station
Selby
North Yorkshire YO8 8PH

Directors:

Philip Cox CBE	*Chair*
Will Gardiner	*Chief Executive Officer*
Andy Skelton	*Chief Financial Officer*
David Nussbaum	*Senior Independent Non-Executive Director*
Nicola Hodson	*Independent Non-Executive Director*
Vanessa Simms	*Independent Non-Executive Director*
John Baxter CBE	*Independent Non-Executive Director*

12 March 2021

Dear Shareholder,

Proposed acquisition of Pinnacle Renewable Energy Inc. ("Pinnacle")

1. Introduction

On 8 February 2021, Drax Group plc announced that it had reached an agreement with Pinnacle Renewable Energy Inc. for Drax Canadian Holdings Inc., an indirect, wholly-owned subsidiary of Drax, to acquire, for cash, all of the issued and outstanding Pinnacle Shares. The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia, Canada, at a price of C$11.30 per Pinnacle Share (the "**Offer Price**"), valuing the fully diluted equity of Pinnacle at approximately C$385 million (£226 million), with an implied enterprise value of C$741 million (£436 million), based on C$356 million of net debt.[1]

The Acquisition constitutes a Class 1 transaction under the Listing Rules. As a consequence, Completion of the Acquisition is conditional on the Acquisition receiving the approval of Shareholders. Accordingly, you will find set out at the end of this Circular a notice convening a General Meeting to be held at 4:30pm on 31 March 2021 at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK. Please note that attendance at the General Meeting will be restricted and your attention is drawn to paragraph 8 below.

Completion is expected to occur in mid-April 2021.

Pinnacle is a corporation existing under the laws of British Columbia and its shares are traded on the Toronto Stock Exchange under the stock symbol "PL.TO". As Pinnacle is a listed entity, the Acquisition is also subject to approval by the Pinnacle Shareholders at a special meeting. On 1 March 2021, Pinnacle published a circular in connection with the Acquisition and has convened its special meeting for 8:30am (Vancouver time) on 31 March 2021, to be held at the same time as the General Meeting. In connection with the statutory plan of arrangement for the implementation of the Acquisition, the Acquisition is also subject to approval by the Supreme Court of British Columbia, which is expected to occur on 6 April 2021.

[1] This was based on Pinnacle's net debt position as at 25 September 2020. Pinnacle's net debt position as at 25 December 2020 was C$371 million.

I am writing to you on behalf of the Board to give you details of the Acquisition, including the background to and reasons for the Acquisition, and to explain why the Board considers the Acquisition to be in the best interests of Drax, its Shareholders and other stakeholders taken as a whole.

You should read the whole of this Circular and not rely solely on the summarised information contained in this Part I (*Letter from the Chair of Drax Group plc*).

2. Background to and reasons for the Acquisition

Drax's sustainable biomass strategy

Sustainable biomass has an important role to play in global energy markets as a flexible and sustainable source of renewable energy, as well as having the potential to deliver negative emissions. Drax believes that the Acquisition accelerates the Drax Group's strategic objectives to increase its available self-supply of sustainable biomass to five million tonnes per annum (Drax currently operates 1.6 million tonnes of capacity with 0.4 million tonnes in development) and reduce the cost of biomass to £50/MWh by 2027. Through the delivery of these strategic objectives Drax aims to create a long-term future for sustainable biomass, including third-party supply, BECCS and merchant biomass generation.

The Drax Group's enlarged supply chain will have access to 4.9 million tonnes of operational capacity from 2022. Of this, 2.9 million tonnes will be available for Drax's self-supply requirements in 2022 (increasing to 3.4 million tonnes in 2027). Drax aims to increase the level of third-party sales and further expand its capacity to meet its target of five million tonnes of self-supply per annum by 2027.

Drax believes that the Acquisition is highly complementary to the Drax Group's long-term strategic options for biomass. Once optimised, the Drax Group's biomass supply chain will support Drax's own generation requirements, including the potential development of BECCS, whilst also serving the growing biomass markets in Europe and Asia via long-term offtake agreements.

Key benefits of the Acquisition

The Board believes the Acquisition is a compelling strategic opportunity to advance Drax's biomass strategy and is expected to deliver a number of key benefits to Drax, Shareholders and other stakeholders, including:

- creating a major producer and supplier of good quality low-cost sustainable biomass;
- providing a large and geographically diversified asset base;
- the potential for long-term biomass revenues with access to Asian and European markets;
- developing global growth opportunities for sustainable biomass; and
- an anticipated strong return on investment.

A major producer and supplier of good quality, low-cost sustainable biomass

Pinnacle operates 2.5 million tonnes per annum of biomass capacity at sites in Western Canada and the South Eastern US with a further 0.4 million tonnes of capacity in development (expected commissioning in 2021). Investment in this new capacity is expected to be substantially complete in the first half of 2021. Once the new capacity is commissioned, Pinnacle's nameplate production capacity is expected to increase to 2.9 million tonnes per annum.

Pinnacle has ownership of c.80 per cent. of this nameplate production capacity, with the remaining c.20 per cent. co-owned with its forest industry joint venture partners, ensuring strong commercial relationships and shared interests in security of supply. Pinnacle has sales and marketing rights to output from all sites.

Pinnacle is a key supplier of wood pellets for Drax and other third parties in Asia and Europe, with C$6.7 billion of contracted third-party sales (including sales to Drax).

Through scale, operational efficiency and low-cost fibre sourcing, Pinnacle currently produces biomass at a lower cost than Drax, with a like-for-like 2019 production cost of US$124/tonne, compared to Drax's 2019 production cost of US$161/tonne. The pro forma 2019 production cost for the combined business is US$141/tonne.

Pinnacle's lower cost partially reflects the use of high levels of low-cost sawmill residues. British Columbia has a large and well-established commercial forestry industry, which has in recent years seen increased harvest levels, in part associated with management of a pine beetle infestation, producing good levels of residue material availability for the production of biomass. This infestation has now run its course and alongside other influences on the forest landscape, including wild-fire, is resulting in a reduction in the annual harvest and sawmill closures. The industry is adjusting to this with some production curtailment as well as developing approaches to fibre recovery and use which is expected to result in some increase in fibre costs.

Since 2017, the Sustainable Biomass Program has conducted annual audits of each of Pinnacle's operational sites, allowing Drax to ensure, through its diligence, that the material that it purchases from Pinnacle is in line with its sustainability standards.

Drax is committed to ensuring that its biomass sources are compliant with Drax's well-established responsible sourcing policy and Drax expects to invest in, adapt and develop sourcing practices to ensure compliance with Drax's policies to deliver both Drax's biomass strategy and positive forest outcomes.

Drax is committed to ensuring best practice in health and safety, operational efficiency and sustainability across the Enlarged Group and intends to invest accordingly to deliver this outcome.

A large and geographically diversified asset base

Pinnacle has ownership interests in ten operational plants and one in development (expected commissioning in 2021), providing access to nameplate production capacity of 2.9 million tonnes per annum. Five of the plants currently operated by Pinnacle, as well as the Demopolis plant under development, are operated through joint venture arrangements.

Seven of Pinnacle's sites are in British Columbia (1.6 million tonnes of nameplate capacity) and two are in Alberta (0.6 million tonnes of nameplate capacity). All of these sites have rail lines to ports at either Prince Rupert or Vancouver, both accessing the Pacific Ocean, providing routes to Asian and European markets.

Pinnacle also operates a US hub at Aliceville, Alabama (0.3 million tonnes of nameplate capacity) and is developing a second site in Demopolis, Alabama (0.4 million tonnes of nameplate capacity), which Pinnacle expects to commission in 2021. Pinnacle's total operational and development nameplate capacity in the US is 0.7 million tonnes.

Pinnacle's US sites are close to Drax's existing operations in the South Eastern US and will utilise river barges to access the Port of Mobile and barge-to-ship loading, reducing fixed port storage costs.

All production sites are located in areas with access to fibre and are able to operate with a range of biomass material from existing commercial forestry activities, including sawmill residues, pre-commercial thinnings and low-grade wood. Combined with a geographic spread of production capacity and access to three separate export facilities, Pinnacle benefits from operational and sourcing flexibility, further enhancing Drax's security of supply.

Long-term biomass revenues with access to Asian and European markets

Pinnacle has contracted sales of C$6.7 billion, with high quality Asian and European counterparties (including Drax). This equates to 99 per cent. of its current production capacity contracted to third parties through 2026 and a significant volume contracted in 2027 and beyond, providing long-term high-quality revenues.

Pinnacle has been supplying biomass to Europe since 2004. The location of the majority of Pinnacle's production capacity in Western Canada with access to the Pacific Ocean provides a strong position from which to serve the growing demand for biomass in Asian markets. In 2018 and 2019, Pinnacle entered into 12 new long-term contracts in Japan and South Korea, totalling over 1.3 million tonnes per annum, valued at C$4.6 billion, with most contracts commencing between 2021 and 2023. Pinnacle's average contract duration is nine years, with certain contracts extending significantly beyond this point. Contracts typically operate on a take-or-pay basis.

Global growth opportunities for sustainable biomass

The global biomass wood pellet market has a broad range of providers that are expected to expand their production capacity, including operators such as Enviva, Graanul Invest, Pinnacle, An Viet Phat, Fram and SY Energy.

The market for biomass wood pellets for renewable generation in Europe and Asia is expected to grow in the current decade, principally driven by Asian demand. Drax believes that increasingly ambitious global decarbonisation targets, the need for negative emissions and an improved understanding of the role that sustainably sourced biomass can play will result in continued robust demand.

As a vertically integrated producer and consumer of sustainable biomass, Drax is differentiated from its peers and well positioned to deliver supply chain efficiencies and an expanded range of sustainable biomass materials for own-use and third-party sales.

Through its expanding lower cost supply chain, expertise in biomass generation and enhanced global footprint, Drax believes that there will be opportunities to work with other companies and countries in developing their own biomass-enabled decarbonisation strategies.

Strong return on investment

The Acquisition is expected to be cash generative and represent an attractive opportunity to create significant value for Shareholders, with expected returns significantly in excess of the Drax Group's weighted average cost of capital.

The addition of long-term contracts with high-quality counterparties in growing international biomass markets will reduce the Drax Group's relative exposure to commodity prices, in line with the Drax Group's objective to improve earnings quality and visibility.

In total, the Acquisition increases access to lower cost biomass by a further 2.9 million tonnes after the commissioning of the Demopolis plant in 2021. The price paid for this capacity is consistent with the previously outlined strategy to invest in the region of £600 million to deliver Drax's plans for five million tonnes per annum of self-supply capacity and a biomass cost of £50/MWh by 2027.

For the year ended 25 December 2020, Pinnacle generated Adjusted EBITDA of C$61.6 million from pellet sales of 2.3 million tonnes.

Fibre diversification and the development of a second hub in the South Eastern US is expected to partially mitigate the risk of fibre price rises.

The Board believes that the Acquisition strengthens the Drax Group's ability to pay a sustainable and growing dividend.

Sustainable sourcing

Sustainably sourced biomass is an important part of UK and European renewable energy policy. The renewable status of sustainably sourced biomass is based on well-established scientific principles set out by the Intergovernmental Panel on Climate Change and reflected in the EU's second Renewable Energy Directive and the UK Renewables Obligation.

Drax maintains a rigorous approach to biomass sustainability, ensuring the wood fibre it uses is fully compliant with the UK's mandatory standards as well as those of the EU.

Drax recognises that the forest landscape in British Columbia and Alberta is different to commercially managed forests in the South Eastern US. Working in partnership with eNGO Earthworm, Drax has a good understanding of the considerations associated with sourcing residues from harvesting of primary forest and the particular characteristics of the forests in British Columbia and Alberta. In line with its responsible sourcing policy, Drax will work closely with eNGO partners, First Nations and other stakeholders, and invest to deliver good environmental, social and climate outcomes in Pinnacle's sourcing areas.

Operational efficiencies, improvements and savings

The strong financial returns associated with the Acquisition are not dependent on synergy benefits, but the Drax Group has identified areas for potential operational improvements and efficiencies, and opportunities to invest across the supply chain to achieve consistent standards and improve outputs across the Enlarged Group.

Portfolio optimisation

Drax aims to leverage Pinnacle's trading capability across its expanded portfolio. Drax believes that the enlarged supply chain will provide greater opportunities to optimise the supply of biomass from its own assets and third-party suppliers.

With existing plans to widen the Drax Group's sustainable biomass fuel mix to include a wider range of lower cost sustainable biomass materials, Drax expects to create further opportunities to optimise fuel cargos for own-use and third-party supply.

Logistics optimisation

Drax believes that the transport and shipping requirements of the Enlarged Group will provide greater opportunities to optimise logistics, with delivery of cargos to a counterparty's closest port, reducing distance, time, carbon footprint and cost.

Enhanced security of supply

Control of Drax's biomass supply chain, with geographically diverse production and export facilities, is expected to enhance security of supply, further mitigating the risk of supply interruptions thereby resulting in improved reliability and a reduced risk of supply interruption.

Combined expertise

Drax believes that there will be opportunities to share best practice and drive improved production performance across the Enlarged Group by leveraging combined expertise in the production of good quality, low-cost pellets across the enlarged supply chain.

Drax also expects to leverage Pinnacle's experience in developing and managing third-party offtake agreements alongside its existing commercial and trading capabilities to develop new agreements for supply to third-parties.

Stronger counterparty credit

Drax has a stronger credit rating, which could enable Pinnacle to develop its supply capability and contracts in Asian and European markets beyond its current position.

Reduced cost of debt

Drax's average cost of debt is lower than Pinnacle's, giving rise to potential future savings.

Corporate cost savings

Drax expects to derive typical corporate cost savings associated with the Acquisition and the delisting of Pinnacle from the Toronto Stock Exchange.

3. Summary of the principal terms of the Acquisition

The arrangement agreement (the "**Acquisition Agreement**") was entered into on 7 February 2021 between Drax Group plc, Drax Canadian Holdings Inc. ("**Bidco**") and Pinnacle Renewable Energy Inc. Pursuant to the Acquisition Agreement, Bidco agreed to acquire, for cash, all of the issued and outstanding Pinnacle Shares on the terms and subject to the conditions of the Acquisition Agreement. The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia. The Acquisition will be implemented at the Offer Price payable in cash. The total consideration payable by Bidco for all of the issued and outstanding Pinnacle Shares will be approximately C$385 million (£226 million).

Conditions

Completion under the Acquisition Agreement is subject to, and can only occur upon satisfaction or (to the extent permitted by law) waiver of, a number of outstanding conditions, including, but not limited to:

(a) Drax Shareholder Approval having been obtained;

(b) Pinnacle Shareholder Approval having been obtained;

(c) the Final Order to approve the Acquisition having been obtained from the Supreme Court of British Columbia (which is expected to be obtained on 6 April 2021);

(d) in the event that the Competition and Markets Authority (the "**CMA**") has requested submission of a merger notice or opened a merger investigation, the CMA having issued a decision that the Acquisition will not be subject to a Phase 2 reference or the period for the CMA considering a merger notice has expired without a Phase 2 reference having been made (in accordance with the Acquisition Agreement, Drax and Pinnacle submitted a briefing paper to the CMA shortly after the announcement of the Acquisition. At this stage, Drax does not expect further dialogue with the CMA);

(e) the expiry or early termination of any applicable waiting period (and any extension of such period) applicable to the Acquisition under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (US); and

(f) no Pinnacle Material Adverse Event having occurred.

In addition, Bidco is not required to complete the Acquisition in circumstances where Pinnacle Shareholders representing more than 5 per cent. of the issued and outstanding Pinnacle Shares as at the date of the Acquisition Agreement exercise their Dissent Rights in connection with the Acquisition.

Non-solicitation

Prior to obtaining Drax Shareholder Approval, Drax is prohibited from soliciting from any third party a Drax Acquisition Proposal and prior to obtaining Pinnacle Shareholder Approval, Pinnacle is prohibited from soliciting from any third party a Pinnacle Acquisition Proposal. However, if prior to obtaining Drax Shareholder Approval, Drax receives a Drax Superior Proposal, it may engage in discussions in relation to such Drax Superior Proposal in accordance with the terms of the Acquisition Agreement. Similarly, if prior to obtaining Pinnacle Shareholder Approval, Pinnacle receives a Pinnacle Superior Proposal, it may engage in discussions in relation to such proposal in accordance with the terms of the Acquisition Agreement.

Break fees

The Acquisition Agreement contains break fee arrangements, pursuant to which Drax may be required to pay Pinnacle a break fee of C$25 million (£14.7 million) (less any expense fee paid by Drax to Pinnacle prior to such break fee becoming due and payable) or Pinnacle may be required to pay Drax a break fee of C$12.5 million (£7.4 million), in each case if the Acquisition Agreement is terminated under certain specified circumstances.

Further details regarding the break fee arrangements and the other material terms, including termination rights, contained within the Acquisition Agreement are set out in Part III (*Principal Terms of the Acquisition*).

4. Shareholder approvals

Due to its size, the Acquisition constitutes a Class 1 transaction under the Listing Rules. As such, Drax is seeking the approval of Shareholders for the Acquisition at the General Meeting, which has been convened for 4:30pm on 31 March 2021 at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK. Shareholders will be asked to vote in favour of the Resolution. In light of COVID-19 restrictions and current prohibitions on public gatherings, attendance at the General Meeting shall be restricted and the only attendees shall be the Chair and anyone else nominated by the Chair in order to establish a quorum.

The Directors that hold Ordinary Shares intend to vote in favour of the Resolution in relation to their beneficial holdings, which, as at the Latest Practicable Date, amounted to approximately 0.21 per cent. of Drax's existing issued ordinary share capital.

The Acquisition also requires the approval of Pinnacle Shareholders by not less than two-thirds of the votes cast by holders of Pinnacle Shares present in person or represented by proxy and entitled to vote at the Pinnacle Shareholder Meeting. Each of the Pinnacle Directors and certain current and former members of Pinnacle's management, as well as Pinnacle's largest shareholder ONCAP II, L.P. and certain of its affiliates, have agreed to vote their Pinnacle Shares in favour of the Arrangement Resolution at the Pinnacle Shareholder Meeting, which collectively amounts to approximately 36 per cent. of the issued and outstanding Pinnacle Shares as at the record date for the Pinnacle Shareholder Meeting, being 16 February 2021.

5. Financing of the Acquisition

The consideration in respect of the Acquisition will be funded from the Drax Group's cash and existing agreements. Immediately following Completion, Pinnacle's indebtedness will be assumed within that of the Drax Group and Drax will manage such indebtedness in accordance with its usual debt management policies. Although the Pinnacle Credit Agreement contains a change of control provision that will be triggered by the Acquisition, Drax has obtained a waiver in writing from lenders constituting a majority of commitments and therefore the Pinnacle Credit Agreement will continue in place immediately post Completion on the same terms as prior to Completion.

The net debt to Adjusted EBITDA ratio in 2021 is expected to be above Drax's long-term target of around two times immediately after Completion, but is expected to return to around this level by the end of 2022.

The consideration will be paid in Canadian dollars. Pinnacle's existing contracts with Drax and third parties are denominated in Canadian and US dollars and Drax expects to manage any exposure within its foreign exchange processes.

Drax's policy is to hedge its foreign currency exposure on contracted biomass volumes over a rolling five-year period. This has given rise to an average foreign exchange rate hedge around 1.40 (US$/GBP£).

6. Current trading and outlook

Drax

On 25 February 2021, Drax published Drax's 2020 Preliminary Results, extracts of which are set out below:

Financial highlights

- *Adjusted EBITDA from continuing and discontinued operations up £2 million to £412 million (2019: £410 million)*
  - o *Includes estimated impact of Covid-19 of £60 million, principally SME customers*
  - o *Strong performance in Pellet Production and Generation*
- *Strong cash generation and balance sheet*
  - o *1.9 x net debt to Adjusted EBITDA, with £682 million of cash and committed facilities at 31 December 2020*
  - o *New carbon-linked RCF, Eurobond and infrastructure facilities with maturities to 2030 and reduced cost of debt*
- *Sustainable and growing dividend up 7.5% to 17.1 pence per share (2019: 15.9 pence per share)*
  - o *Proposed final dividend of 10.3 pence per share (2019: 9.5 pence per share)*

2021 outlook

- *Targeting carbon negative*
  - o *No new gas generation at Drax Power Station, retain options for system support gas in next capacity auction*
  - o *Completion of sale of existing gas generation (January 2021) and end of commercial coal (March 2021)*
- *Progressing biomass strategy*
  - o *Proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) – supports long-term options for third-party supply, BECCS and biomass generation*
  - o *BECCS – commencement of DCO planning process, potential FEED study and clarity on regional clusters*
- *Operations*
  - o *Major planned outage on CfD unit and continued impact of Covid-19 on SME customers*
  - o *Strong contracted power sales (2021–2023) 24.4TWh at £48.5/MWh*

The Directors can confirm that Drax's financial outlook as described above remains correct as at the date of this document, save that the sale of the existing gas generation assets completed on 31 January 2021 (see paragraph 11.1 of Part VI (*Additional Information*) for further information).

Pinnacle

On 24 February 2021, Pinnacle published its audited financial results for the year ended 25 December 2020 (which are included in Part IV (*Historical Financial Information for the Pinnacle Group*) of, and the Appendix to, this document). An extract from Pinnacle's results announcement is set out below:

Outlook

- *The demand for wood pellets remains strong. Year-over-year production increases are expected as the Entwistle plant operates at full capacity, benefits are realized from the upgrades at Williams Lake, Meadowbank, and Aliceville and High Level continues its commissioning process.*
- *Cold weather is expected to impact production at the Company's Canadian mills and increase drying costs, which is typical in the winter months. In addition, the Fibreco grain silo incident will continue to impact loading operations at the port throughout Q1 2021 and possibly longer, with additional impacts on rail service and production.*
- *Pinnacle's order backlog remains strong at C$6.7 billion.*
- *On-going uncertainties associated with the COVID-19 pandemic including reports of higher positive test results in areas where the Company operates, have the potential to impact operations and the availability and cost of feedstock for the mills. Barring a deterioration in the business environment due to COVID-19 or other factors, the construction of the Company's growth-related projects will continue as planned.*

The Directors can confirm that Pinnacle's financial outlook as described above remains correct as at the date of this document (see paragraph 11.2 of Part VI (*Additional Information*) for further information).

7. Costs and risks relating to the Acquisition

Whilst the Board considers the Acquisition to be in the best interests of Drax and its Shareholders as a whole, there are a number of potential risks and uncertainties that Shareholders should consider before voting on the Resolution. Your attention is drawn to the further discussion of certain of these risks and uncertainties set out in Part II (*Risk Factors*).

In particular, it is possible that the expected benefits of the Acquisition may take longer than anticipated to be realised or may not be realised.

Drax will also incur a number of other customary costs in relation to the Acquisition more generally (including legal, accounting, financial adviser, sponsor and other transaction fees), some of which will be payable regardless of whether the Acquisition reaches Completion.

8. General Meeting

Set out at the end of this Circular is a Notice convening the General Meeting which is to be held at 4:30pm on 31 March 2021 at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK, at which the Resolution will be proposed. The Resolution is set out in full at the end of this Circular in the Notice of General Meeting. As a Class 1 transaction for the purposes of the Listing Rules, the Acquisition may only be completed if it is first approved by Shareholders. Voting on the Resolution will be taken on a poll to reflect the number of shares held by a Shareholder. The Resolution requires the approval of a majority of the votes cast (in person or by proxy) at the meeting in order to be passed.

The General Meeting will be held at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK. In light of COVID-19 restrictions and current prohibitions on public gatherings, attendance at the General Meeting shall be restricted and the only attendees shall be the Chair and any other person nominated by the Chair in order to satisfy the minimum quorum requirements set out in the Company's Articles of Association. Therefore, we strongly encourage you to vote electronically or to vote by proxy.

The General Meeting is routinely an opportunity for Shareholders to ask questions of the Board in relation to the business of the General Meeting. The Company values Shareholder feedback and is keen to ensure that this dialogue continues, despite the challenges faced by COVID-19 and COVID-19 related restrictions. The Company will therefore be accepting Shareholders' questions for the General Meeting via the facility on the Company's website at www.drax.com/investors/disclaimer-proposed-acquisition-of-pinnacle-renewable-energy-inc-by-drax. The deadline for submitting questions is 5:00pm on 19 March 2021. The Company will look to post answers to questions received on the Company's website.

If you wish to vote by proxy, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar by not later than 4:30pm on 29 March 2021. As an alternative to completing the hard-copy Form of Proxy, you can appoint a proxy electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed on your Form of Proxy). Alternatively, if you have already registered with the Company's Registrar's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk using your usual user ID and password. Full instructions are given on both websites. To be valid, your proxy appointment(s) and instructions should reach Equiniti Limited no later than 4:30pm on 29 March 2021. If you are a member of CREST you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 4:30pm on 29 March 2021.

For further details in respect of the General Meeting, please see Part VIII (*Notice of General Meeting*).

9. Action to be taken

You are requested to:

a) complete, sign and return the Form of Proxy in accordance with the instructions printed thereon and contained in this Circular so as to be received by the Registrar no later than 4:30pm on 29 March 2021;

b) register the appointment of your proxy electronically at www.sharevote.co.uk or, if you have already registered with the Company's Registrar's online portfolio service, Shareview, www.shareview.co.uk. Full instructions are given on both websites. Please note that the personalised numbers printed at the top of the Form of Proxy will be required and instructions must be received by no later than 4:30pm on 29 March 2021; or

c) if you hold shares in CREST you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrars (CREST participant ID RA19) so that it is received by no later than 4:30pm on 29 March 2021.

10. Financial advice

The Board has received financial advice from RBC in relation to the Acquisition. In providing its financial advice to the Board, RBC has relied upon the Board's commercial assessment of the Acquisition.

11. Recommendation

In the Board's opinion, the Acquisition is in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends Shareholders to vote in favour of the Resolution to be proposed at the General Meeting, as the Directors that hold Ordinary Shares intend to do in respect of their own beneficial shareholdings, being in aggregate 831,929

Ordinary Shares, representing approximately 0.21 per cent. of Drax's issued ordinary share capital as at the Latest Practicable Date.

Yours sincerely,

Philip Cox CBE

Chair

PART II
RISK FACTORS

Prior to making any decision to vote in favour of the Resolution at the General Meeting, Shareholders should carefully consider, together with all other information contained in this Circular, the specific factors and risks described below.

Drax considers these to be the material risk factors relating to, or which will otherwise be impacted by, the Acquisition for Shareholders to consider. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks of which the Board is not aware or which it believes to be immaterial which may, in the future, be connected to the Acquisition and have a material and adverse effect on the business, financial condition, results of operations or future prospects of the Drax Group, the Pinnacle Group and, following Completion, the Enlarged Group. The risks described below relate to, or will otherwise be impacted by, the Acquisition.

If any or a combination of these risks actually materialise, the business, financial condition, results of operations and future prospects of the Drax Group, the Pinnacle Group or, following Completion, the Enlarged Group could be materially and adversely affected to the detriment of the Drax Group and the Shareholders. Additional risks and uncertainties which are not known to the Directors as at the date of this Circular, or that the Directors currently deem immaterial, may also have a material adverse effect on the Drax Group, the Pinnacle Group or, following Completion, the Enlarged Group if they materialise. If this occurs, the market price of Ordinary Shares could decline and you may lose all or part of your investment.

The information given is as of the date of this Circular and, except as required by the FCA, the London Stock Exchange, the Listing Rules, the DTRs or any other law or regulation, will not be updated.

1. RISKS RELATED TO THE ACQUISITION

The Acquisition is subject to certain conditions which may not be satisfied or waived, as well as certain termination rights, and therefore the Acquisition may not proceed

Completion under the Acquisition Agreement is subject to, and can only occur upon satisfaction or waiver of, a number of conditions, including but not limited to: (i) the passing of the Resolution at the General Meeting, (ii) the passing of the Arrangement Resolution at the Pinnacle Shareholder Meeting, (iii) the Final Order having been obtained from the Court, (iv) no Pinnacle Material Adverse Event having occurred, (v) applicable antitrust clearances having been obtained, and (vi) Dissent Rights not having been exercised by Pinnacle Shareholders holding more than 5 per cent. of the issued and outstanding Pinnacle Shares as at the date of the Acquisition Agreement.

Although Drax and Pinnacle have obligations in relation to the satisfaction of the conditions to the Acquisition under the Acquisition Agreement, those conditions may not be satisfied or waived by the Long Stop Date (or such later time as the parties to the Acquisition Agreement may agree), and, as a result, the Acquisition Agreement will automatically terminate. In particular, the Court may fail to grant the Final Order if it does not consider that the Acquisition is fair and reasonable to Pinnacle Shareholders, and holders of share options and equity awards in Pinnacle, and in such circumstances, the Acquisition will not proceed.

In addition, Drax has retained the right to terminate the Acquisition Agreement in certain circumstances including but not limited to where (i) Drax Shareholder Approval is not obtained at the General Meeting, (ii) Pinnacle Shareholder Approval is not obtained at the Pinnacle Shareholder Meeting, (iii) a Pinnacle Material Adverse Event has occurred, (iv) prior to obtaining Pinnacle Shareholder Approval, Pinnacle enters into a Pinnacle Superior Proposal or makes a Pinnacle Change in Recommendation as a result of a Pinnacle Intervening Event, (v) prior to obtaining Drax Shareholder Approval, the Board makes a Drax Change in Recommendation as a result of a Drax Superior Proposal or a Drax Intervening Event and (vi) Pinnacle breaches the non-solicitation provisions set out in the Acquisition Agreement in any material respect.

Pinnacle has the right to terminate the Acquisition Agreement in certain circumstances including but not limited to where (i) Drax Shareholder Approval is not obtained at the General Meeting, (ii) Pinnacle

Shareholder Approval is not obtained at the Pinnacle Shareholder Meeting, (iii) prior to obtaining Drax Shareholder Approval, Drax enters into a Drax Superior Proposal or makes a Drax Change in Recommendation as a result of a Drax Intervening Event, (iv) prior to obtaining Pinnacle Shareholder Approval, Pinnacle makes a Pinnacle Change in Recommendation as a result of a Pinnacle Superior Proposal or a Pinnacle Intervening Event and (v) Drax breaches the non-solicitation provisions set out in the Acquisition Agreement in any material respect.

A break fee or expense fee may be payable by Drax if the Acquisition does not complete

In the event that the Acquisition Agreement is terminated as a result of a Drax Change in Recommendation or by Drax in connection with a Drax Superior Proposal, a break fee of C$25 million (£14.7 million) will be payable by Drax to Pinnacle.

In the event that the Acquisition Agreement is terminated as a result of a failure to obtain Drax Shareholder Approval, an expense fee of C$5 million (£2.9 million) will be payable by Drax to Pinnacle as reimbursement for Pinnacle's out-of-pocket expenses in connection with the Acquisition.

The Acquisition Agreement does not provide the Drax Group with any recourse in respect of any material liabilities of the Pinnacle Group that emerge after the date of the Acquisition Agreement

As Pinnacle is a publicly listed company, the Acquisition Agreement does not provide Drax or Bidco with any recourse against, or other ability to recover from, the shareholders or management of Pinnacle in respect of material losses which the Drax Group may suffer in respect of a breach of warranty, or otherwise, in respect of liabilities of the Pinnacle Group. If any material liabilities arose, this could adversely affect the Enlarged Group's business, financial condition, results of operations and future prospects.

The Enlarged Group may not realise, or it may take the Enlarged Group longer to realise, the expected benefits of the Acquisition

The Acquisition is expected to support Drax by accelerating its strategy to reduce the cost of sourcing pellets for its generation business and expand its capacity for self-supply (which aligns with existing investment by Drax being made in its own facilities for the same purpose), whilst also diversifying the business model by the addition of Pinnacle's existing arrangements for the supply of pellets to third parties under arms' length contracts. The Enlarged Group may fail to achieve the anticipated benefits that Drax expects to realise as a result of the Acquisition, including as a result of poor performance by the Pinnacle Group, or it may take longer than expected to realise the anticipated benefits. The Enlarged Group may not realise the intended benefit of lowering production and operating costs, and the complexity of operating within the Enlarged Group may in fact result in higher than expected costs. For example, levels of investment or higher than anticipated costs in operating Pinnacle's business may arise as part of changes that Drax introduces to Pinnacle's operating procedures or in developing and implementing common standards for the Enlarged Group. These could adversely impact the Enlarged Group's business, financial condition, results of operations and future prospects.

In particular, the increased capacity for self-supply created by the Acquisition could be used to support third-party sales of biomass, merchant generation at Drax Power Station and the development of BECCS. There is a risk that none of these long-term options arise and Drax may be left with significant excess stocks of pellets which it does not require for its own operations. Drax would have to find alternative markets for the excess wood pellets, through commercial sales to third parties which may not be possible to secure or even if they could be secured might be at unattractive unit prices, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

The Enlarged Group may experience difficulties in integrating the Pinnacle Group into the Drax Group

The Drax Group and the Pinnacle Group currently operate and, until Completion will continue to operate, as separate and independent businesses. The Acquisition will lead to the incorporation of the

Pinnacle Group into the Drax Group and the evolution of the Drax Group's business into new jurisdictions, adding new sites in Canada and the South Eastern US. The success of the Enlarged Group will depend, in part, on how effectively the separate operations are integrated and the ability of the Enlarged Group to realise the anticipated benefits from combining the two businesses.

The integration process is likely to present administrative, managerial and financial challenges, some of which may not be identified until following Completion. Unforeseen difficulties, costs, liabilities, losses or delays could adversely affect the business of the Enlarged Group and the realisation of the benefits of the Acquisition. This includes continued uncertainty as a result of COVID-19 which could impede travel and result in additional challenges in planning, implementing and overseeing changes to the activities of the Enlarged Group.

The failure of, or any delays or difficulties encountered in connection with, the integration process could also lead to reputational damage to the Enlarged Group.

Drax's acquisition and integration costs may be greater than anticipated

Drax expects to incur a number of costs in relation to the Acquisition, including the cost of integrating the Pinnacle Group into the Drax Group in order to combine the operations of the Drax Group and the Pinnacle Group successfully. The actual costs of the integration process may exceed those estimated and there may be further additional and/or unforeseen expenses incurred in connection with the Acquisition.

In addition, Drax will incur legal, accounting, technical engineering adviser, financial adviser, sponsor and other transaction fees and costs relating to the Acquisition. Some of these costs will be payable regardless of whether the Acquisition reaches Completion.

While Drax believes that the integration and acquisition costs will be more than offset by the benefits resulting from the Acquisition, this net benefit may not be realised in the short term or at all (particularly if the Acquisition does not proceed) or may be less than anticipated. This could affect the business, financial condition, results of operations and future prospects of the Drax Group and, following Completion, the Enlarged Group.

The Enlarged Group will have increased debt financing

Following Completion, the Enlarged Group will have additional indebtedness due to drawing on existing facilities and the inclusion of the Pinnacle Group's indebtedness in that of the Enlarged Group. The Enlarged Group accordingly will be required to service interest payments in respect of the increased indebtedness. In addition, the Enlarged Group's net debt to Adjusted EBITDA ratio is expected to be above Drax's long-term target of two times immediately following Completion and it may take longer than expected to reduce to this target.

Existing customers of Pinnacle may seek to amend or terminate contracts as a result of the Acquisition

The Pinnacle Group has a number of contracts for the supply of biomass wood pellets on an arm's length basis to customers in Europe and Asia with an average contract duration of nine years. These contracts and the expected returns are important to the Drax Group in developing its business and provide additional expected earnings for the Enlarged Group. The Acquisition may result in customers seeking changes to the terms under prevailing contracts, terminating the contracts early or failing to renew the contracts at a future date, each of which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects. As the Acquisition remains subject to a number of conditions and Completion is therefore subject to uncertainty, Pinnacle's customers and suppliers may decide to delay or defer decisions relating to Pinnacle until after Completion, which could adversely impact Pinnacle's business, financial condition, results of operations and future prospects in the period prior to Completion. In addition, following Completion, the Enlarged Group may seek to amend existing contracts to introduce terms that comply with Drax Group policies (and UK legislation), in particular those relating to sustainability, health and safety and compliance. The Enlarged Group may not be successful in establishing alternative contracts or, even if such alternative contracts are secured, they may be on less favourable terms than those prevailing prior to Completion.

In particular, most of Pinnacle's revenue is generated from three key customers (one of which is Drax) and the loss of either of the other two customers would adversely impact Pinnacle's and the Enlarged Group's business, financial condition, results of operations and future prospects. Pinnacle's contract with one of these customers contains a change of control provision which could be triggered by the Acquisition. The loss of one of these key customers would require Drax to source alternative customers for the wood pellets and could leave Drax with an excess of pellets which it is unable to use, or even if alternative customers could be secured, might be sold at unattractive unit prices, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

Adverse change in the condition of the Pinnacle Group

Drax may be entitled to terminate the Acquisition Agreement in circumstances where there is an event, change, occurrence, effect, state of facts or circumstances that is, or would reasonably be expected to be, material and adverse to the Pinnacle Group.

However, this termination right contains certain exceptions which limit the ability of Drax to trigger termination of the Acquisition Agreement. Drax would not be able to exercise this termination right if the material and adverse event related to (i) any change or development generally affecting the industrial wood pellet industry or the supply of wood fibre to the industrial wood pellet industry, (ii) any change, development or condition in global, national or regional political conditions or any earthquake, flood, forest fire or other natural disaster, (iii) any epidemic, pandemic or outbreak of illness (including the COVID-19 pandemic), (iv) any change or development in general economic conditions, (v) changes in law, regulation or accounting standards, (vi) changes in or relating to currency exchange, interest or inflation rates, (vii) changes in Pinnacle's share price or the trading volume of Pinnacle Shares and (viii) the failure of Pinnacle to meet any internal, published or public projections or forecasts.

If one of these exceptions were to occur in the period prior to Completion and even if it had a material and adverse impact on the Pinnacle Group, Drax would not be able to terminate the Acquisition Agreement and, in such circumstances, the value of the Pinnacle Group may be less than anticipated.

Management attention may be diverted from the business of the Drax Group by the Acquisition

The Acquisition has required, and will continue to require, substantial amounts of both time and focus from the management teams of both Drax and Pinnacle, which could impact their ability to operate each business effectively and efficiently. Following Completion, the Enlarged Group's management will also be required to devote significant attention and resources to integrating the two businesses. There is a risk that the challenges associated with managing the Acquisition will result in distractions for the people employed in the respective businesses, as well as for customers, suppliers and other key stakeholders and that consequently the underlying businesses will not perform in line with expectations.

Risks of executing the Acquisition could cause the share price of the Ordinary Shares to decline

The market price of Drax's Ordinary Shares may decline as a result of the Acquisition, among other reasons, if (i) the Company does not achieve the anticipated benefits of the Acquisition as rapidly, or to the extent anticipated by the Board, or at all, (ii) the effect of the Acquisition on Drax's financial results is not consistent with the expectations of analysts or investors or (iii) Shareholders sell a significant number of Ordinary Shares following Completion.

2. RISKS RELATING TO THE DRAX GROUP, THE PINNACLE GROUP AND/OR THE ENLARGED GROUP FOLLOWING THE ACQUISITION

This section documents those risks and uncertainties currently faced by the Drax Group and, following the Acquisition, the Enlarged Group, which are potentially impacted by the Acquisition.

The Enlarged Group may become exposed to increased legal and regulatory risk

The Enlarged Group will operate in a market which is subject to extensive legislation, regulation and compliance. Following Completion, the size of the Enlarged Group's business will increase. The increased size of the Enlarged Group, and particularly its increased presence in pellet manufacturing, may lead to increased regulatory scrutiny or regulatory change (particularly in the event of any repeat incidents). This may result in increased costs of compliance and may result in actions against the Enlarged Group for non-compliance with the relevant regulatory framework. The Enlarged Group may also become increasingly exposed to the impact of changes to the legal or regulatory framework in which the Enlarged Group will operate, including the legal and regulatory requirements in Canada and its regions (and the jurisdictions to which the Enlarged Group will supply pellets) to which Drax is not currently subject. This could have a material adverse impact on the Enlarged Group's business, financial condition, results of operations and prospects.

In addition, the Drax Group will become subject to the remit of regulators in Canada and in more areas of the South Eastern US and the Enlarged Group will be subject to regulations on a range of assets (for example, forests and watercourses) that are not currently applicable to the Drax Group. Whilst operational staff are transferring as part of the Acquisition, any failure of the Enlarged Group to adapt to the increased regulatory burden may result in non-compliance and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects. The Pinnacle Group will also need to adapt to the regulatory framework currently applicable to the Drax Group and, in particular, will need to seek amendments to third-party contracts to ensure that they comply with Drax Group policies (and UK legislation), each of which could materially increase operational costs.

A more diverse operating portfolio increases the scope of the health and safety and environmental obligations applicable to the Enlarged Group, and a failure of the Enlarged Group to adapt to those obligations may materially impact the reputation and financial condition of the Enlarged Group

The Enlarged Group will be subject to an increased regulatory burden in respect of health and safety and environmental compliance as a result of acquiring a more diversified portfolio across new territories (including a number of facilities which are owned and operated through joint ventures). A failure by the Enlarged Group to adapt to, and comply with, this increased regulatory burden or else adequately remedy any legacy issues at the acquired sites may result in fines or criminal sanctions which, if levied, could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects. In particular, there have been health and safety incidents at Pinnacle's facilities in the past, some of which are currently under investigation by regulatory authorities. The occurrence of health and safety incidents could expose the Enlarged Group to enforced regulatory change, financial and other penalties, have a reputational impact on the Enlarged Group and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

For Pinnacle's products to be acceptable to customers, they must comply with stringent sustainability requirements

In order to be eligible for financial incentives and subsidies that encourage the use of renewable energy, Pinnacle's customers (including Drax) must comply with sustainability requirements evidencing that the use of biomass fuel is demonstrably sustainable. Within Europe, and the UK in particular, these requirements are implemented through biomass sustainability criteria, which have a mandatory element of eligibility in order that biomass energy generators receive financial subsidies. These sustainability requirements may change, impose restrictions on the types of biomass that can be used and/or may require the Enlarged Group to source raw materials only from geographic regions that comply with specific forest management practices. These requirements may also require the Enlarged

Group to reduce the greenhouse gas emissions associated with its supply and production processes. If the Enlarged Group is unable to comply with applicable sustainability requirements, or if the cost of complying with such requirements increases the cost of Pinnacle's wood pellets, demand for Pinnacle's products could be materially reduced in certain markets, which could have a reputational impact on the Enlarged Group and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

Changes in biomass policy may not align with the Drax Group's strategy

The Acquisition enables the Drax Group to accelerate its ambition to build a long-term future for sustainable biomass. However, biomass may not continue to be supported either in the UK or in other jurisdictions as a sustainable and ecologically viable source of energy which could result in more stringent regulation and reduced financial support for biomass. This might occur not only due to wider sentiment concerning the biomass industry generally but as a result of attitudes concerning Drax's operations and strategy. Sustainability legislation and public understanding of the benefits of biomass in the UK and other jurisdictions is evolving. Sustainability policy changes on the sourcing and use of biomass in the UK and other jurisdictions in which the Enlarged Group will operate (or to which it will supply pellets) could be unworkable and make it difficult for the Enlarged Group to comply with policy requirements or adversely affect its ability to claim subsidies in support of economic biomass generation. Such changes in policy could increase costs to operate, make it difficult to source biomass or reduce the current support for the benefits of biomass. If the biomass produced by Pinnacle ceased to meet the criteria for it to be considered a renewable source under legislation in these jurisdictions, this could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

The Enlarged Group's operations rely on the Enlarged Group having good relationships with its key stakeholders

Drax's and Pinnacle's operations and growth prospects require strong relationships with key stakeholders, including shareholders, governments, agencies, First Nations and local communities, landowners and environmental organisations. Furthermore, Pinnacle relies on its joint venture partners, fibre suppliers and transportation partners to maintain similar strong relationships with these stakeholders to conduct its business. Inadequate management of the expectations of, and consideration of issues important to, stakeholders by Pinnacle or its partners could result in the deterioration of relationships with key stakeholders which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

Pinnacle is highly dependent on continuous access to infrastructure at its owned, leased and third-party operated ports. Loss of access to these ports, including through failure of port equipment and port closures, could adversely affect its operations

A significant portion of Pinnacle's total production is loaded for shipment using equipment at the Port of Mobile, the Port of Prince Rupert and the Port of Vancouver, and substantially all of Pinnacle's production is dependent upon infrastructure at its owned, leased and third-party operated ports. In the event of a port closure, failure of the port equipment or any other temporary or permanent disruption to the logistics infrastructure that Pinnacle relies upon to access these ports (including rail lines), Pinnacle would be unable to fulfil offtake obligations or may incur substantial additional transportation costs. This could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

Pinnacle's business relies on effective quality control systems and a failure to meet customer standards could have a material adverse effect on the Enlarged Group

The cost and quality of Pinnacle's wood pellets, and its ability to deliver them to customers in a timely and cost-effective manner, is critical to the success of the Pinnacle Group's business. This relies on Pinnacle's quality control systems, its quality training programme and its ability to ensure that its employees adhere to its quality control policies and guidelines. Any failure to meet these standards could result in increased costs for the Enlarged Group, impact relationships with customers and potentially lead to customers terminating their contracts, each of which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

The performance of the acquired assets could be impacted by events outside the Enlarged Group's control

The economic case underpinning the Acquisition assumes that the assets at the Pinnacle facilities will be generally operational throughout the year. However, this may be prevented by events outside the Enlarged Group's control, including unseasonal or extreme weather, fire, explosion or insect infestations. If, for example, excess rainfall leads to flooding or one of Pinnacle's facilities were affected by a fire, this could result in increased costs if the Enlarged Group has to source pellets elsewhere in order to fulfil its offtake obligations. Much of Pinnacle's wood fibre is sourced from Western Canada which was recently affected by a pine beetle infestation. The long-term effect of the infestation is uncertain and if the sawmills from which Pinnacle purchases its fibre are adversely affected, this could lead to increased production costs. In addition, any delays in the development and investment into Pinnacle's facilities including those presently under construction or required for future production, could affect Pinnacle's ability to fulfil its offtake obligations. Any such events or similar that are outside the Enlarged Group's control could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

A proportion of the Pinnacle Group's business is carried out through joint venture arrangements over which the Enlarged Group will not have sole operational control

Five of the plants currently operated by Pinnacle, as well as the Demopolis plant under development, are owned and operated through joint ventures. Collectively, these plants represented 38 per cent. of the annual revenue of Pinnacle's business in the year ended 25 December 2020. The Enlarged Group will not have sole operational control over these joint venture arrangements and Drax's intentions for the development of the sites operated under the joint ventures or Drax's investment plans may not be consistent with, or align with, the interests and expectations of the joint venture partners. Any deterioration in the Enlarged Group's relationships with the joint venture partners could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects. In addition, one or more of Pinnacle's joint venture partners may have financial constraints that limit its ability to contribute capital to the relevant facility on a proportionate basis, or otherwise have a negative impact on such facility, which could adversely affect Pinnacle's interest in the facility. Pinnacle may also, in certain circumstances, be directly or indirectly liable for actions taken by its joint venture partners without its consent or approval.

Certain of the joint venture agreements provide the parties with put/call options, exercisable in certain circumstances, including in the event of a change of control of the other party. Some of these options will be triggered by the Acquisition. If any of the joint venture counterparties elect to exercise their put options, the Enlarged Group may be required to pay a material sum to purchase the interests of the electing counterparties and increase its ownership interest in such joint venture(s). If any of the joint venture counterparties elect to exercise their call options, the Enlarged Group would be required to reduce its ownership interest in or potentially exit the joint ventures, however the Enlarged Group would be compensated. In the event either circumstance occurs, this could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

The Enlarged Group's data, IT systems and networks may be vulnerable to security risks, such as cyber attacks or other leakage of sensitive data, which could adversely affect the business

Drax and Pinnacle receive, process and store data in the conduct of their business that is sensitive, commercially valuable and/or subject to data protection laws in the countries in which it operates. In addition, the management information systems of Drax and Pinnacle are a critical part of the effective operation of their respective businesses and meeting their obligations to their respective customers, including Drax's role as part of the UK critical national infrastructure in the supply of energy to the National Grid. Due to the prominence of the Acquisition, and particularly its focus on allowing Drax to accelerate its ambition to build a long-term future for sustainable biomass, Drax and Pinnacle may become subject to cyber attacks from climate change activists, or associated NGOs. Additionally, the increased global footprint of the Enlarged Group increases the vulnerability to cyber-crime.

In particular, Drax and Pinnacle may be vulnerable to cyber attacks that could result in data breaches, unauthorised access, computer viruses and other security issues (despite regular testing, security reviews and training and awareness campaigns); and such attacks may not be detected before or following Completion. If damage were caused to the information and operating systems were compromised or the information contained in the management information systems was lost, this could impact the ability of Drax or Pinnacle to fulfil their obligations.

Although Drax and Pinnacle have policies and procedures in place and take measures to protect data and IT systems in accordance with applicable laws, the security measures taken may ultimately prove inadequate. Unauthorised access to, loss or leakage of sensitive data, fraud in relation to sensitive data or violation of data protection laws due to cyber-attacks or breaches of the security arrangements intended to protect Drax's or Pinnacle's management information systems may result in reputational damage, regulatory sanctions, fines or penalties, litigation, loss of market share, loss of transaction volumes, loss of customers, loss of revenues or financial losses, any of which could also have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

The cost of debt financing could increase or financing could cease to be available

The ability of the Drax Group (and, following Completion, the Enlarged Group) to operate its business depends in part on being able to access appropriate finance and capital. While the Drax Group currently seeks to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities, there can be no assurance that, over the longer term, the Enlarged Group will be able to find lenders who are willing to lend on no worse terms than its existing financing arrangements, or at all, or that existing financing arrangements will be able to be refinanced on no worse terms, or at all, upon or prior to maturity. For example, changes in economic conditions, changes in fiscal policies by governments or further impact from the COVID-19 pandemic could result in adverse changes in the markets which Drax uses to source funds.

An increase in the cost, or lack of availability, of finance and capital could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

It may be difficult for the Enlarged Group to retain or attract appropriately qualified personnel to fulfil the requirements of the Enlarged Group

Certain of the assets of the Enlarged Group require employees with sufficient technical engineering and operational expertise to maintain and operate them safely and optimally. Whilst operational staff are transferring as part of the Acquisition, there can be no certainty that such staff will continue to work for the Enlarged Group in the longer term, and it may prove difficult to find adequately skilled replacements.

In addition, the sites that will be operated by the Enlarged Group (including those presently under construction due to commission in 2021) will require an adequate number of sufficiently qualified employees to maintain the day to day operations.

The Drax Group, the Pinnacle Group or the Enlarged Group may suffer material losses in excess of insurance proceeds

While each of the Drax Group and the Pinnacle Group maintains, and the Enlarged Group will maintain, insurance at a level they believe is appropriate against risks commonly insured in their industry, there is no guarantee that they will be able to obtain the desired levels of cover on acceptable terms in the future. Moreover, the insurance may not be sufficient or effective in all circumstances and against all hazards or liabilities to which the Enlarged Group might be subject. Therefore, the Enlarged Group's assets could suffer physical damage, resulting in losses which may not be fully compensated by insurance which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

PART III
PRINCIPAL TERMS OF THE ACQUISITION

The following is a summary of the principal terms of the Acquisition Agreement.

1. Parties and structure

The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia, Canada. The Acquisition Agreement (being an arrangement agreement) was entered into on 7 February 2021 between Bidco, Drax and Pinnacle. Pursuant to the Acquisition Agreement, Bidco has agreed to acquire, for cash, all of the issued and outstanding Pinnacle Shares.

The Acquisition Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada (as applicable) save that matters relating to the Pinnacle Board's fiduciary duties and the effectuation of the Acquisition are governed by the laws of the Province of British Columbia.

2. Consideration

The Acquisition will be implemented at the Offer Price in cash. The total consideration payable by Bidco for all of the issued and outstanding Pinnacle Shares will be approximately C$385 million (£226 million), with an implied enterprise value of C$741 million (£436 million), based on C$356 million of net debt.[2]

Drax shall, on or immediately prior to the Effective Date and in any event prior to Completion, on the terms and subject to the conditions set out in the Acquisition Agreement, (i) place into escrow with a depositary (TMX Trust Company) sufficient funds to satisfy the aggregate consideration payable pursuant to the Plan of Arrangement to the Pinnacle Shareholders and (ii) provide sufficient funds to pay the aggregate amount payable by Pinnacle to holders of Pinnacle share options and equity awards in consideration for the cancellation of all outstanding Pinnacle share options and equity awards in the form of a loan to Pinnacle and Pinnacle shall direct that the proceeds of such loan be deposited in escrow.

At the Effective Time, all unvested Pinnacle share options and equity awards outstanding immediately prior to the Effective Time will automatically and unconditionally vest and be cancelled or redeemed in exchange for a right to receive from Pinnacle a cash payment equal to: (i) in the case of share options, the amount (if any) by which the Offer Price exceeds the exercise price of such share option; and (ii) in the case of equity awards, the Offer Price for each equity award held.

3. Conditions to Completion

Completion is subject to, and can only occur upon, satisfaction or waiver of, a number of outstanding conditions, including, but not limited to the following mutual conditions which can only be waived with the mutual consent of Drax and Pinnacle:

(A) Drax Shareholder Approval having been obtained;

(B) Pinnacle Shareholder Approval having been obtained;

(C) the Final Order to approve the Acquisition having been obtained from the Court (which is expected to be obtained on 6 April 2021);

(D) in the event that the CMA has requested submission of a merger notice or opened a merger investigation, the CMA having issued a decision that the Acquisition will not be

[2] This was based on Pinnacle's net debt position as at 25 September 2020. Pinnacle's net debt position as at 25 December 2020 was C$371 million.

subject to a Phase 2 reference or the period for the CMA considering a merger notice has expired without a Phase 2 reference having been made (in accordance with the Acquisition Agreement, Drax and Pinnacle submitted a briefing paper to the CMA shortly after the announcement of the Acquisition. At this stage, Drax does not expect further dialogue with the CMA); and

(E) the expiry or early termination of any applicable waiting period (and any extension of such period) applicable to the Acquisition under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (US).

In addition, Drax and Bidco are not required to complete the Acquisition in circumstances where:

(A) Pinnacle Shareholders representing more than 5 per cent. of the issued and outstanding Pinnacle Shares as at the date of the Acquisition Agreement exercise their Dissent Rights in connection with the Acquisition; or

(B) a Pinnacle Material Adverse Event has occurred.

4. Representations, warranties and covenants

The Acquisition Agreement contains representations, warranties and covenants that are customary for a Canadian acquisition of the size and nature of the Acquisition.

In particular, each of Drax and Pinnacle is subject to covenants concerning their respective obligations to call and hold a shareholder meeting for the purpose of obtaining the requisite shareholder approval for the Acquisition.

Drax is entitled to terminate the Acquisition Agreement if Pinnacle breaches certain material representations, warranties or covenants prior to the Effective Time (and such breach is incapable of being cured or is not cured in accordance with the terms of the Acquisition Agreement). However, if a breach is not discovered until after Completion, neither Drax nor Bidco will have any recourse against Pinnacle, Pinnacle's management or the Pinnacle Shareholders.

5. Termination rights

The Acquisition Agreement may be terminated by the mutual written agreement of Drax and Pinnacle at any time prior to the Effective Time. Either Drax or Pinnacle may terminate the Acquisition Agreement in the event that:

(A) the Effective Time has not occurred by the Long Stop Date;

(B) any law or order that makes consummation of the Acquisition illegal or otherwise prohibits or enjoins Drax or Pinnacle from consummating the Acquisition has become final and non-appealable;

(C) Drax Shareholder Approval is not obtained at the General Meeting; or

(D) Pinnacle Shareholder Approval is not obtained at the Pinnacle Shareholder Meeting.

In addition, the Acquisition Agreement contains reciprocal termination rights for Drax and Pinnacle if:

(A) the other party has breached certain material representations, warranties or covenants and such breach or failure is incapable of being cured or is not cured in accordance with the terms of the Acquisition Agreement; or

(B) the other party fails to comply with the non-solicitation provisions set out in the Acquisition Agreement in any material respect.

Drax may also terminate the Acquisition Agreement if:

(A) prior to obtaining Pinnacle Shareholder Approval, Pinnacle makes a Pinnacle Change in Recommendation;

(B) prior to obtaining Drax Shareholder Approval, the Board (i) makes a Drax Change in Recommendation as a result of a Drax Superior Proposal or a Drax Intervening Event or (ii) authorises Drax to enter into any definitive agreement (other than a confidentiality agreement) in respect of a Drax Superior Proposal; or

(C) a Pinnacle Material Adverse Event has occurred which is incapable of being cured on or prior to the Long Stop Date.

Pinnacle may also terminate the Acquisition Agreement if:

(A) prior to obtaining Drax Shareholder Approval, the Board makes a Drax Change in Recommendation; or

(B) prior to obtaining Pinnacle Shareholder Approval, the Pinnacle Board (i) makes a Pinnacle Change in Recommendation as a result of a Pinnacle Superior Proposal or a Pinnacle Intervening Event or (ii) authorises Pinnacle to enter into any definitive agreement (other than a confidentiality agreement) in respect of a Pinnacle Superior Proposal.

6. Break fees

Break fee payable to Drax

Pinnacle has agreed to pay to Drax a break fee equal to C$12.5 million (£7.4 million) in the event that the Acquisition Agreement is terminated by:

(A) Drax following a Pinnacle Change in Recommendation or a breach by Pinnacle of the non-solicitation provisions set out in the Acquisition Agreement;

(B) Pinnacle following a Pinnacle Change in Recommendation or in connection with a Pinnacle Superior Proposal or Pinnacle Intervening Event; or

(C) any party as a result of (i) Completion not occurring prior to the Long Stop Date or (ii) a failure to obtain Pinnacle Shareholder Approval, but, in each case, (a) only if prior to the Pinnacle Shareholder Meeting, a *bona fide* Pinnacle Acquisition Proposal shall have been made or publicly announced and not withdrawn and (b) within 12 months of such termination (1) Pinnacle or one or more of its subsidiaries enters into a definitive agreement in respect of a Pinnacle Acquisition Proposal and such Pinnacle Acquisition Proposal is later consummated or (2) a Pinnacle Acquisition Proposal shall have been consummated, provided that, in each case, the break fee shall only be payable if the Pinnacle Acquisition Proposal relates to 50 per cent. or more of the issued and outstanding Pinnacle Shares or assets of the Pinnacle Group.

Break fee payable to Pinnacle

Drax has agreed to pay to Pinnacle a break fee equal to C$25 million (£14.7 million) (less any expense fee paid by Drax to Pinnacle prior to such break fee becoming due and payable) in the event that the Acquisition Agreement is terminated by:

(A) Pinnacle following a Drax Change in Recommendation or a breach by Drax of the non-solicitation provisions set out in the Acquisition Agreement;

(B) Drax following a Drax Change in Recommendation or in connection with a Drax Superior Proposal or Drax Intervening Event; or

(C) any party as a result of (i) Completion not occurring prior to the Long Stop Date or (ii) a failure to obtain Drax Shareholder Approval, but, in each case, (a) only if prior to the General Meeting a *bona fide* Drax Acquisition Proposal shall have been made or publicly announced and not withdrawn and (b) within 12 months of such termination (1) Drax or one or more of its subsidiaries enters into a definitive agreement in respect of a Drax Acquisition Proposal and such Drax Acquisition Proposal is later consummated or (2) a Drax Acquisition Proposal shall have been consummated, provided that, in each case, the break fee shall only be payable if the Drax Acquisition Proposal relates to 50 per cent. or more of the issued and outstanding Ordinary Shares or assets of the Drax Group.

Expense fee

In the event that the Acquisition Agreement is terminated as a result of a failure to obtain Drax Shareholder Approval, Drax has agreed to pay to Pinnacle an amount equal to C$5 million (£2.9 million) as reimbursement for Pinnacle's out-of-pocket expenses in connection with the Acquisition.

7. Non-solicitation

Pinnacle non solicitation

Pinnacle is subject to customary non-solicitation provisions set out in the Acquisition Agreement which prohibit Pinnacle from soliciting any Pinnacle Acquisition Proposal prior to obtaining Pinnacle Shareholder Approval. However, if at any time prior to obtaining Pinnacle Shareholder Approval, Pinnacle receives a request for material non-public information, or to enter into discussions, from a person that proposes to Pinnacle an unsolicited *bona fide* written Pinnacle Acquisition Proposal, Pinnacle may engage in or participate in discussions or negotiations regarding such Pinnacle Acquisition Proposal in accordance with the terms and conditions of the Acquisition Agreement.

If the Pinnacle Board determines in good faith and following consultation with its external advisers that any such Pinnacle Acquisition Proposal received prior to obtaining Pinnacle Shareholder Approval constitutes a Pinnacle Superior Proposal, the Pinnacle Board shall be entitled to make a Pinnacle Change in Recommendation and approve, recommend or enter into a definitive agreement with respect to such Pinnacle Superior Proposal only if: (i) the person making such Pinnacle Superior Proposal is not restricted from making a Pinnacle Acquisition Proposal pursuant to an existing standstill, confidentiality, non-disclosure, business purpose, use or similar restriction, (ii) Pinnacle remains in compliance with the non-solicitation provisions under the Acquisition Agreement; and (iii) Pinnacle has notified Drax in writing of the existence and terms of the Pinnacle Acquisition Proposal and, if Drax so requests, entered into a period of good faith negotiations with Pinnacle with respect to Drax's proposed adjustments to the terms and conditions of the Acquisition Agreement so that such Pinnacle Acquisition Proposal would cease to constitute a Pinnacle Superior Proposal, (iv) Pinnacle has provided Drax with a copy of the Pinnacle Superior Proposal and all supporting materials; (v) five business days have elapsed from the date on which Drax has received notice of the Pinnacle Superior Proposal; (vi) during the five business days following the notice of the Pinnacle Superior Proposal, Drax had the opportunity (but not the obligation) to offer to amend the Acquisition Agreement in order for such Pinnacle Acquisition Proposal to cease to be a Pinnacle Superior Proposal, and (vii) prior to or concurrently with terminating the Acquisition Agreement, Pinnacle enters into such Pinnacle Acquisition Proposal and concurrently pays to Drax the applicable break fee.

Drax non solicitation

Drax is also subject to equivalent non-solicitation provisions which prohibit Drax from soliciting any Drax Acquisition Proposal prior to obtaining Drax Shareholder Approval.

However, if at any time prior to obtaining Drax Shareholder Approval, Drax receives a request for material non-public information, or to enter into discussions, from a person that proposes to Drax an unsolicited *bona fide* written Drax Acquisition Proposal, Drax may engage in or participate in discussions or negotiations regarding such Drax Acquisition Proposal in accordance with the terms and conditions of the Acquisition Agreement.

If the Board determines in good faith and following consultation with its external advisers that any such Drax Acquisition Proposal received prior to obtaining Drax Shareholder Approval constitutes a Drax Superior Proposal, the Board shall be entitled to make a Drax Change in Recommendation and approve, recommend or enter into a definitive agreement with respect to such Drax Superior Proposal only if: (i) the person making such Drax Superior Proposal is not restricted from making a Drax Acquisition Proposal pursuant to an existing standstill, confidentiality, non-disclosure, business purpose, use or similar restriction, (ii) Drax remains in compliance with the non-solicitation provisions under the Acquisition Agreement; and (iii) Drax has notified Pinnacle in writing of the existence and terms of the Drax Acquisition Proposal and, if Pinnacle so requests, entered into a period of good faith negotiations with Pinnacle with respect to Pinnacle's proposed adjustments to the terms and conditions of the Acquisition Agreement so that such Drax Acquisition Proposal would cease to constitute a Drax Superior Proposal, (iv) Drax has provided Pinnacle with a copy of the Drax Superior Proposal and all supporting materials; (v) five business days have elapsed from the date on which Pinnacle has received notice of the Drax Superior Proposal; (vi) during the five business days following the notice of the Drax Superior Proposal, Pinnacle had the opportunity (but not the obligation) to offer to amend the Acquisition Agreement in order for such Drax Acquisition Proposal to cease to be a Drax Superior Proposal, and (vii) prior to or concurrently with terminating the Acquisition Agreement, Drax enters into such Drax Acquisition Proposal and concurrently pays to Pinnacle the applicable break fee.

8. Voting agreements

On 7 February 2021, each of the Pinnacle Directors, certain current and former members of Pinnacle's management and ONCAP II L.P, and its affiliates (representing, in aggregate, approximately 36 per cent. of the Pinnacle Shares as at the record date for the Pinnacle Shareholder Meeting, being 16 February 2021) entered into voting support agreements with Drax and Bidco, pursuant to which each agreed, among other things, to vote his, her or its respective Pinnacle Shares in favour of the Arrangement Resolution at the Pinnacle Shareholder Meeting.

PART IV
HISTORICAL FINANCIAL INFORMATION RELATING TO THE PINNACLE GROUP

This Part IV (*Historical Financial Information relating to the Pinnacle Group*), together with the Appendix to this Circular, contains consolidated financial information for Pinnacle for the three years ended 25 December 2020, 27 December 2019 and 28 December 2018.

The financial information contained in this Part IV (*Historical Financial Information relating to the Pinnacle Group*) and the Appendix has been extracted without material adjustment from the consolidated audited financial statements of Pinnacle as published in the annual reports for the years ended 25 December 2020, 27 December 2019 and 28 December 2018.

Comparative financial statements for the Pinnacle Group for the period ending 27 December 2019 have been reclassified to conform with those as presented in the financial statements for the period ending 25 December 2020.

The financial information relating to the Pinnacle Group in the consolidated statements and in the notes to the consolidated statement for the fiscal year ended 27 December 2019 includes the restated consolidated audited financial information for the year ended 28 December 2018 (as it appeared in the annual report of Pinnacle in respect of the year ended 27 December 2019). This restatement was made to reflect the finalisation of the purchase price allocation for Pinnacle's acquisition of a 70 per cent. interest in the Aliceville Facility (as defined herein). The Aliceville Facility acquisition occurred in Q4 2018; however, the purchase price allocation was finalised in the following financial year in Q4 2019 in accordance with IFRS 3.

The Pinnacle Group adopted IFRS 16 Leases on 29 December 2018 on a modified retrospective basis. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations. The adoption and its impact are disclosed in the consolidated financial statements for the year ended 27 December 2019 included in this Circular.

This financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 or, as the case may be, section 434(3) of the Companies Act 2006. The consolidated audited financial statements of Pinnacle in respect of the years ended 25 December 2020, 27 December 2019 and 28 December 2018 have been filed on SEDAR.

Shareholders should read the whole of this Circular and not rely solely on the financial information contained in this Part IV (*Historical Financial Information relating to the Pinnacle Group*).

Unless otherwise stated, the financial information relating to Pinnacle in this document has been prepared in accordance with Canadian generally accepted accounting principles ("**Canadian GAAP**"), defined as International Financial Reporting Standards set out in the CPA Canada Handbook – Accounting.

In this Part IV (*Historical Financial Information relating to the Pinnacle Group*) and the Appendix, the "**Company**" means Pinnacle.

Following an analysis of the accounting policies of the Pinnacle Group for each of the financial years ended 25 December 2020, 27 December 2019 and 28 December 2018, the Directors concluded that there were no material differences between the accounting policies adopted by the Drax Group and the accounting policies adopted by the Pinnacle Group, in each case for the period covered by the historical financial information. Consequently, no material adjustment needs to be made to the historical financial information for the Pinnacle Group, incorporated by reference into this Circular, in order to achieve consistency with the accounting policies of the Drax Group.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	December 25, 2020	Restated December 27, 2019	December 27, 2019	Restated December 28, 2018	December 28, 2018
ASSETS					
Current assets					
Cash and cash equivalents	11,510	11,267	11,267	18,028	18,028
Restricted cash	1,325	-	-	-	-
Accounts receivable	30,941	36,764	36,764	41,502	43,017
Inventory	42,679	46,938	46,938	24,531	24,531
Receivable against NMTC debt	-	12,774	12,774	1,515	-
Other current assets	4,308	10,916	11,436	5,846	5,846
Total current assets	90,763	118,659	119,179	91,422	91,422
Property, plant and equipment	565,442	399,181	399,181	337,285	330,899
Goodwill and intangible assets	98,795	100,191	100,191	103,679	108,073
Investment in Houston Pellet Limited Partnership	7,217	7,548	7,548	9,374	9,374
Receivable against NMTC debt	-	-	-	84,877	84,877
Deferred income taxes	4,688	2,448	2,448	149	149
Other long-term assets	17	1,364	1,364	2,500	2,500
Total assets	766,922	629,391	629,911	629,286	627,294
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	64,737	50,663	51,183	43,745	43,537
Revolver loan	6,000	19,200	19,200	18,450	18,450
Current portion of long-term debt	21,700	3,128	4,200	9,500	9,500
Current portion of NMTC debt	-	12,774	12,774	1,515	1,515
Current portion of lease liabilities	10,879	7,424	7,424	-	-
Other current liabilities	315	1,786	1,786	3,642	3,642
Total current liabilities	103,631	94,975	96,567	76,852	76,644
Long-term debt	352,070	293,686	292,614	232,425	232,425
NMTC debt	-	-	-	84,877	84,877
Lease liabilities	92,765	29,551	29,551	-	-
Other long-term liabilities	6,857	2,462	2,462	4,334	4,335
Deferred income tax liabilities	1,130	-	-	-	-
Total liabilities	556,453	420,674	421,194	398,488	398,281
Equity					
Shareholders' Equity					
Common shares	278,076	277,619	277,619	273,966	273,966
Contributed surplus	4,377	4,145	4,145	3,556	3,556
Accumulated Other Comprehensive Income/(loss)	(4,474)	(1,320)	(1,320)	-	-
Deficit	(130,989)	(117,191)	(117,191)	(86,423)	(86,437)
Total equity attributable to owners of the Company	146,990	163,253	163,253	191,099	191,085
Non-controlling interest	63,479	45,464	45,464	39,699	37,928
Total equity	210,469	208,717	208,717	230,798	229,013
Total liabilities and equity	766,922	629,391	629,911	629,286	627,294

(expressed in thousands of Canadian Dollars unless otherwise stated)
See Appendix for accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME/(LOSS)

Fiscal year ended	December 25, 2020	Restated December 27, 2019	December 27, 2019	Restated December 28, 2018	December 28, 2018
Revenue	490,505	377,808	377,808	347,440	347,440
Costs and expenses					
Production	346,266	258,547	258,547	233,107	233,107
Distribution	62,223	54,021	54,021	46,899	46,899
Selling, general and administration	20,049	18,495	18,495	22,789	22,789
Amortization of equipment and intangible assets	42,830	39,997	39,997	24,782	24,678
	471,368	371,060	371,060	327,577	327,473
Operating income	19,137	6,748	6,748	19,863	19,967
Other income/(expense)					
Equity (loss)/earnings in Houston Pellet Limited Partnership	(330)	573	573	1,058	1,058
Gain/(loss) on disposal of property, plant and equipment	(1,058)	(1,103)	(1,103)	382	382
Gain/(loss) on class B&D common shares	-	-	-	3,563	3,563
Loss on conversion of debentures into shares	-	-	-	(21,881)	(21,881)
Impairment of Entwistle plant	-	(9,417)	(9,417)	-	-
Impairment of Intangibles	-	(278)	(278)	-	-
Insurance recovery for property loss at Entwistle plant	3,643	9,000	9,000	-	-
Finance costs	(26,534)	(24,178)	(24,178)	(2,955)	(3,042)
Other income	157	6,376	6,376	1,474	1,474
Plant impairment loss and curtailment costs	-	-	-	(234)	(234)
	(24,122)	(19,027)	(19,027)	(18,593)	(18,680)
Net profit (loss) before income taxes	(4,985)	(12,279)	(12,279)	1,270	1,287
Income tax recovery					
Deferred	1,109	2,305	2,305	1,415	1,415
	1,109	2,305	2,305	1,415	1,415
Net profit (loss)	(3,876)	(9,974)	(9,974)	2,685	2,702
Net profit (loss) attributable to:					
Owners of the Company	(5,041)	(10,807)	(10,807)	1,864	1,850
Non-controlling interests	1,165	833	833	821	852
	(3,876)	(9,974)	(9,974)	2,685	2,702
Net profit (loss) per share attributable to owners (Basic and diluted):	(0.15)	(0.33)	(0.33)	0.05	0.05
Weighted average of number of shares outstanding (thousands):	33,359	33,238	33,238	32,974	32,974

(expressed in thousands of Canadian Dollars unless otherwise stated)

See Appendix for accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

Fiscal year ended	December 25, 2020	Restated December 27, 2019	December 27, 2019	Restated December 28, 2018	December 28, 2018
Net Profit (loss)	(3,876)	(9,974)	(9,974)	2,685	2,702
Other comprehensive income (loss) net of taxes:					
Items that may be recycled through net income:					
Foreign exchange translation of foreign operations, net of tax	(4,506)	(940)	(940)	-	-
Comprehensive income (loss) for the year	(8,382)	(10,914)	(10,914)	2,685	2,702

Comprehensive income (loss) attributable to:					
Owners of the Company	(8,195)	(12,127)	(12,127)	1,864	1,850
Non-controlling interests	(187)	1,213	1,213	821	852
	(8,382)	(10,914)	(10,914)	2,685	2,702

(expressed in thousands of Canadian Dollars unless otherwise stated)

See Appendix for accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of Common Shares (#)	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures – Equity Component	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 29, 2017	**57,600,000**	-	**29,500**	**28,005**	**4,332**	**35,213**	-	**(75,419)**	**13,573**	**35,204**
Net profit (loss) for the year (original)[1]	-	-	-	-	-	-	-	1,850	852	2,702
Net profit (loss) restatement for the year	-	-	-	-	-	-	-	14	(31)	(17)
Share exchange at Initial Public Offering ("IPO")	(47,424,946)	57,505	(29,500)	(28,005)		-	-	-	-	-
Exchange of liability-classified shares at IPO	1,995,357	22,448	-	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at IPO	432,853	1,597	-	-	(1,597)	-	-	-	-	-
Conversion of debentures at IPO	14,076,068	125,269	-	-	-	(35,213)	-	-	-	90,056
Share issuance at IPO	6,223,889	70,019	-	-	-	-	-	-	-	70,019
Share issuance costs	-	(3,987)	-	-	-	-	-	-	-	(3,987)
Stock options exercised during the year	100,492	1,115	-	-	(464)	-	-	-	-	651
Stock-based compensation	-	-	-	-	1,285	-	-	-	-	1,285
Dividends declared during the year	-	-	-	-	-	-	-	(12,868)	-	(12,868)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,075)	(1,075)
Investment by non-controlling interests (original)[1]	-	-	-	-	-	-	-	-	24,578	24,578
Investment by non-controlling interests (restatement)	-	-	-	-	-	-	-	-	1,802	1,802
Balance, December 28, 2018	**33,003,713**	**273,966**	**-**	**-**	**3,556**	**-**	**-**	**(86,423)**	**39,699**	**230,798**
Net profit (loss) for the year	-	-	-	-	-	-	-	(10,807)	833	(9,974)
Stock options exercised during the year	51,094	567	-	-	(235)	-	-	-	-	332
RSUs settled during the year	263,545	3,086	-	-	-	-	-	-	-	3,086
Stock-based compensation	-	-	-	-	824	-	-	-	-	824
Dividends declared during the year	-	-	-	-	-	--	-	(19,938)	-	(19,938)
Reversal of excess dividend accrual	-	-	-	-	-	-		(23)	-	(23)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	-	(1,320)	-	380	(940)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,100)	(1,100)
Investment from non-controlling interests	-	-	-	-	-	-	-	-	5,652	5,652
Balance, December 27, 2019	**33,318,352**	**277,619**	**-**	**-**	**4,145**	**-**	**(1,320)**	**(117,191)**	**45,464**	**208,717**

[1] The profit for the year ended December 28, 2018 was revised in the financial statements for the year ended December 27, 2019 from the prior year from $2,702 to $2,685 as above. This restatement was made to reflect the finalisation of the purchase price allocation for Pinnacle's acquisition of a 70 per cent. interest in the Aliceville Facility (as defined herein).

(expressed in thousands of Canadian Dollars unless otherwise stated)
See Appendix for accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Number of Common Shares (#)	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures – Equity Component	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 27, 2019	**33,318,352**	**277,619**	**-**	**-**	**4,145**	**-**	**(1,320)**	**(117,191)**	**45,464**	**208,717**
Net profit/ (loss) for the year	-	-	-	-	-	-	-	(5,041)	1,165	(3,876)
Stock options exercised during the year	41,218	457	-	-	(214)	-	-	-	-	243
Stock-based compensation	-	-	-	-	446	-	-	-	-	446
Dividends declared during the year	-	-	-	-	-	-	-	(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 by non-controlling interest	-	-	-	-	-	-	-	-	18,689	18,689
Balance, December 25, 2020	**33,359,570**	**278,076**	**-**	**-**	**4,377**	**-**	**(4,474)**	**(130,989)**	**63,479**	**210,469**

(expressed in thousands of Canadian Dollars unless otherwise stated)
See Appendix for accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal year ended	December 25, 2020	Restated December 27, 2019	December 27, 2019	Restated December 28, 2018	December 28, 2018
Cash provided by (used in)					
Operating activities					
Net profit (loss)	(3,876)	(9,974)	(9,974)	2,685	2,702
Financing costs, net	26,534	24,178	24,178	2,955	3,042
Distributions from Houston Pellet Limited Partnership	-	2,400	2,400	600	600
Insurance received for business interruption at Entwistle plant	9,516	7,100	7,100	-	-
Realized gain on derivatives and foreign exchange	2,095	2,189	2,152	308	308
Items not involving cash:	-				
Loss on conversion of debentures into shares	-	-	-	21,881	21,881
Amortization of equipment and intangible assets	42,830	39,997	39,997	24,782	24,678
Equity loss/(earnings) in Houston Pellet Limited Partnership	330	(573)	(573)	(1,058)	(1,058)
(Gain) loss on disposal of equipment	1,058	1,103	1,103	(382)	(382)
Stock-based compensation	642	1,020	1,020	4,266	4,266
Inventory write (up) down	688	181	181	(319)	(319)
Impairment of Entwistle plant	-	9,417	9,417	-	-
Impairment of intangible assets	-	278	278	-	-
Insurance recoverable recorded in income for Entwistle plant	(7,259)	(22,000)	(22,000)	-	-
Business interruption insurance recorded in income related to Houston	(490)	-	-	-	-
(Gain) loss on Class B and D common shares	-	-	-	(3,563)	(3,563)
Deferred income tax (recovery) expense	(1,109)	(2,305)	(2,305)	(1,399)	(1,399)
Cash flow from operating activities	70,959	53,011	52,974	50,756	50,756
Net change in non-cash operating working capital	15,317	(20,049)	(20,012)	7,017	7,017
	86,276	32,962	32,962	57,773	57,773
Financing activities					
Drawings on revolver loan	278,200	199,600	199,600	24,450	24,450
Repayment of revolver loan	(291,400)	(198,850)	(198,850)	(28,000)	(28,000)
Drawings on term debt	-	277,944	277,944	20,000	20,000
Repayment of term debt	(5,600)	(194,000)	(194,000)	(6,000)	(6,000)
Drawings on delayed draw loan	82,200	20,000	20,000	50,491	50,491
Repayment of delayed draw loan	-	(49,760)	(49,760)	(20,000)	(20,000)
Repayment of $15M debentures	-	-	-	(28,577)	(28,577)
Share issuance costs	-	-	-	(5,435)	(5,435)
Proceeds from Initial Public Offering	-	-	-	70,019	70,019
Payment of finance leases	(9,253)	(7,550)	(9,862)	(707)	(707)
Proceeds from exercise of stock options	243	332	332	651	651
Dividends paid during the year	(8,757)	(19,939)	(19,939)	(12,868)	(12,868)
Investment from non-controlling interest	18,689	5,652	5,652	5,863	5,863
Distributions to non-controlling interest	(487)	(1,100)	(1,100)	(1,075)	(1,075)
Finance costs paid	(19,817)	(19,215)	(16,902)	(8,882)	(8,882)
	44,018	13,114	13,115	59,930	59,930
Investing activities					
Insurance recovery for property loss at Entwistle plant	4,643	8,000	8,000	-	-
Increase in restricted cash	(1,325)	-	-	-	-
Purchase of intangible assets	(71)	-	-	-	-
Acquisition of the Aliceville Facility	-	-	-	(47,569)	(47,569)
Purchase of property, plant and equipment	(133,361)	(61,032)	(61,032)	(73,131)	(73,131)
Proceeds from sale of property, plant and equipment	400	157	157	1,903	1,903
	(129,714)	(52,875)	(52,875)	(118,797)	(118,797)
Foreign exchange gain (loss) on cash position held in foreign currency	(337)	38	37	214	214
Increase (decrease) in cash and cash equivalents	243	(6,761)	(6,761)	(880)	(880)
Cash and cash equivalents, beginning of year	11,267	18,028	18,028	18,908	18,908
Cash and cash equivalents, end of year	11,510	11,267	11,267	18,028	18,028

(expressed in thousands of Canadian Dollars unless otherwise stated)
See Appendix for accompanying notes to the consolidated financial statements

PART V
UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

PART A: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma net assets statement of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") set out in Part A of this Part V (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*) has been prepared on the basis of the notes below, and in accordance with Listing Rule 13.3.3R, to illustrate the impact of the Acquisition on the net assets of Drax Group plc as at 31 December 2020, as if it had taken place at that date.

The Unaudited Pro Forma Financial Information has been prepared on a basis consistent with the accounting policies and presentation adopted by Drax Group plc in relation to its consolidated financial statements for the year ended 31 December 2020 and includes the net assets of the Pinnacle Group as at 25 December 2020.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results. The Unaudited Pro Forma Financial Information does not purport to represent what the Enlarged Group's financial position and results of operations actually would have been if the Acquisition had been completed on the dates indicated, nor does it purport to represent the results of operations for any future period or the financial condition at any future date.

The Unaudited Pro Forma Financial Information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. Shareholders should read the whole of this Circular and not rely solely on the summarised financial information contained in this Part V (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*).

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS RELATING TO THE ENLARGED GROUP

		Adjustments			
	Drax 31 December 2020 (Note 1) £m	Receipt from assets held for sale (Note 2) £m	Pinnacle 25 December 2020 (Note 3) £m	Acquisition Adjustment (Note 4) £m	Pro forma Enlarged Group £m
Assets					
Non-current assets					
Goodwill	248.2	-	57.3	103.1	408.6
Intangible assets	181.8	-	0.8	-	182.6
Property, plant and equipment	1,941.1	-	272.6	-	2,213.7
Right-of-use assets	29.0	-	60.0	-	89.0
Other fixed asset investments	1.5	-	4.3	-	5.8
Retirement benefit surplus	9.5	-	-	-	9.5
Deferred tax assets	65.3	-	54.1	-	119.4
Derivative financial instruments	103.8	-	-	-	103.8
	2,580.2		449.1	103.1	3,132.4
Current assets					
Inventories	208.2	-	25.1	-	233.3
ROC assets	139.6	-	-	-	139.6
Trade and other receivables and contract-related assets	525.3	-	20.7	-	546.0
Derivative financial instruments	179.5	-	-	-	179.5
Current tax assets	9.0	-	-	-	9.0
Cash and cash equivalents	289.8	188.0	7.6	(239.8)	245.6
Assets classified as held for sale	261.3	(261.3)	-	-	-
	1,612.7	(73.3)	53.4	(239.8)	1,353.0
Liabilities					
Current liabilities					
Trade and other payables and contract-related liabilities	(907.0)	-	(38.6)	1.1	(944.5)
Lease liabilities	(7.0)	-	(6.4)	-	(13.4)
Current tax liabilities	-	-	-	-	-
Borrowings	-	-	(16.3)	-	(16.3)
Derivative financial instruments	(311.5)	-	-	-	(311.5)
Liabilities directly associated with assets classified as held for sale	(82.5)	82.5	-	-	-
	(1,308)	82.5	(61.3)	1.1	(1,285.7)
Net current assets / (liabilities)	304.7	9.2	(7.9)	(238.7)	67.3
Non-current liabilities					
Borrowings	(1,065.7)	-	(207.1)	-	(1,272.8)
Lease liabilities	(23.2)	-	(54.6)	-	(77.8)
Derivative financial instruments	(142.1)	-	(2.2)	-	(144.3)
Provisions	(91.2)	-	(1.4)	-	(92.6)
Deferred tax liabilities	(222.0)	-	(52.1)	-	(274.1)
Retirement benefit obligations	(1.3)	-	-	-	(1.3)
	(1,545.5)	-	(317.4)	-	(1,862.9)
Net assets	1,339.4	9.2	123.8	(135.6)	1,336.8

Notes

(1) The Drax Group's financial information as at 31 December 2020 has been extracted, without material adjustment, from the Drax Group's published preliminary results for the year ended 31 December 2020, which are incorporated by reference pursuant to paragraph 15 of Part VI (*Additional Information*) ("**Drax's 2020 Preliminary Results**"). Drax's 2020 Preliminary Results have been derived from the audited consolidated financial statements of the Drax Group for the year ended 31 December 2020 ("**Drax's 2020 Financial Statements**"). Drax's 2020 Preliminary Results have been prepared:

a. in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;

b. on a going concern basis and on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Drax Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively);

c. using the principal accounting policies adopted in the preparation of the financial statements set out in Drax's 2019 Annual Report and Accounts, except for new standards applicable from 1 January 2020. The application of these new standards has not had a material impact on the financial statements; and

d. on a basis which is both comparable with the Drax Group historical financial information and consistent with Drax's accounting policies.

Drax's 2020 Preliminary Results have not been audited. However, Drax's 2020 Financial Statements, from which Drax's 2020 Preliminary Results were derived, include a signed Independent Auditor's Report to the Members of Drax Group plc.

(2) Drax Group included net assets held for sale at 31 December 2020 of £178.8 million related to the disposal of a subsidiary, Drax Generation Enterprise Ltd. The disposal of the subsidiary completed on 31 January 2021, with £188.0 million of cash proceeds received.

For the purposes of the Unaudited Pro Forma Financial Information and to demonstrate the financing of the Acquisition, the proceeds of the disposal of the net assets held for sale received shortly after the year end have been included as an adjustment and attributed to the line item Cash and cash equivalents. The related assets and liabilities designated as held for sale have been removed.

The unaudited pro forma statement of net assets does not include any adjustment for deferred consideration receivable on the disposal of the net assets held for sale, as this and the timing of any associated cashflow is contingent on future events. The cash proceeds of £188.0m included an element based on estimates of expected working capital balances at completion of the disposal. The pro forma statement does not include any adjustment to the net assets held for sale for trading activities between the balance sheet date and the date of completion. As a result of these factors, which could be material, the adjustment shown in the unaudited pro forma statement of net assets does not reflect a profit on disposal for accounting purposes.

(3) The Pinnacle Group's net assets are based on the consolidated balance sheet of the Pinnacle Group as at 25 December 2020 extracted without material adjustment from Pinnacle's audited consolidated financial statements included in Part IV (*Historical Financial Information Relating to Pinnacle*) of, and the Appendix to, this document, as adjusted to Drax Group's presentation. A reconciliation of the Pinnacle Group's consolidated balance sheet to Drax Group's accounting presentation is presented below.

Pinnacle Balance Sheet line items	Pinnacle Balance Sheet line items as at 25 December 2020 CAD$k (Note A)	Drax Balance Sheet line items	Pinnacle Balance Sheet line items under Drax's presentation as at 25 December 2020 CAD$k (Note B)	Translated into Drax's Reporting Currency £m (Note C)
Assets		**Assets**		
Current assets		**Non-current assets**		
Cash and cash equivalents	11,510	Goodwill	97,482	57.3
Restricted cash	1,325	Intangible assets	1,313	0.8
Accounts receivable	30,941	Property, plant and equipment	463,443	272.6
Inventory	42,679	Right-of-use assets	101,999	66.0
Other current assets	4,308	Other fixed asset investments	7,217	4.3
		Retirement benefit surplus	-	-
		Deferred tax assets	92,052	54.1
		Derivative financial instruments	-	-
Total current assets	**90,763**	**Total non-current assets**	**763,506**	**449.1**
Non-current assets		**Current assets**		
Property, plant and equipment	565,442	Inventories	42,679	25.1
Goodwill and intangible assets	98,795	ROC assets	-	-
Investment in Houston Pellet Limited Partnership	7,217	Trade and other receivables and contract-related assets	35,266	20.7
Other long-term assets	17	Derivative financial instruments	-	-
Deferred income taxes	4,688	Current tax assets	-	-
		Cash and cash equivalents	12,835	7.6
		Assets classified as held for sale	-	-
Total assets	**766,922**		**90,780**	**53.4**
Liabilities		**Liabilities**		
Current liabilities		Current liabilities		
Revolver loan	(6,000)	Trade and other payables and contract-related liabilities	(65,709)	(38.6)
Accounts payable and accrued liabilities	(64,737)	Lease liabilities	(10,879)	(6.4)
Current portion of long-term debt	(21,700)	Current tax liabilities	-	-
Current portion of lease liabilities	(10,879)	Borrowings	(27,700)	(16.3)
Other current liabilities	(315)	Derivative financial instruments	(3)	-
		Liabilities directly associated with assets classified as held for sale	-	-
Total current liabilities	**(103,631)**	**Total current liabilities**	**(104,291)**	**(61.3)**
		Net current assets / (liabilities) **Non-current liabilities**	**(13,511)**	**(7.9)**
Long-term debt	(352,070)	Borrowings	(352,070)	(207.1)
Lease liabilities	(92,765)	Lease liabilities	(92,765)	(54.6)
Other long-term liabilities	(6,857)	Derivative financial instruments	(3,731)	(2.2)
Deferred income tax liabilities	(1,130)	Provisions	(2,466)	(1.4)
		Deferred tax liabilities	(88,494)	(52.1)
		Retirement benefit obligations	-	-
Total liabilities	**(556,453)**		(539,526)	(317,.4)
Net assets*	**210,469**	**Net assets**	**210,469**	**123.8**

*The Pinnacle Group present the Consolidated Statement of Financial Position using the Total Assets and Total Liabilities method. Hence the total for Net assets is illustrative as it has been calculated, as a Net assets figure is not disclosed in the Pinnacle Group's financial statements as at 25 December, 2020.

The Pinnacle Group's balance sheet line items are directly extracted without adjustment from the Pinnacle Group's consolidated balance sheet at 25 December 2020, included in Part IV (*Historical Financial Information Relating to Pinnacle*).

A. With regards to the statement of net assets, as at 25 December 2020, no material differences have been identified between the Company's accounting policies and Pinnacle Group's accounting policies.

B. This reflects the Pinnacle Group's consolidated balance sheet as at 25 December 2020 re-presented to conform to the Drax Group's line item presentation.

C. The Pinnacle Group's financial information has been converted from CAD$ to GBP using the exchange rate of £1:C$1.7.

(4) a) The Unaudited Pro Forma Financial Information has been prepared on the basis that the Enlarged Group will apply acquisition accounting. The unaudited pro forma statement of net assets does not reflect the fair value adjustments to the acquired assets and liabilities as the purchase price allocation exercise will not be finalised until after Completion. Upon completion of the purchase price allocation exercise, the Drax Group expects that fair value adjustments will be recognised in respect of certain assets and liabilities. For the purposes of the unaudited pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net assets acquired has been attributed to the line item goodwill and other intangible assets without consideration of any accounting for minority interest or deferred tax consequences. The fair value adjustments, when finalised following Completion, may be material.

The pro forma goodwill arising has been calculated as follows:

	Note	**£m**
Cash Consideration	(i)	221.7
Cash consideration for share options	(ii)	4.6
Total cash consideration for fully diluted equity		226.3
Less carrying amount of net assets		(123.8)
Cash consideration for change of control clauses	(ii)	0.6
Pro forma goodwill adjustment		103.1
Existing goodwill		57.3
Preliminary goodwill arising on acquisition		**160.4**

i. Cash consideration is calculated as C$11.30 per share on 33,359,570 Pinnacle Group's Shares outstanding as at 25 December 2020. The final number of Pinnacle Group's Shares to be used for calculating the consideration will be determined at Completion and will reflect certain additional Pinnacle Group's Shares which will be issued as a result of share awards vesting in the period up to and on Completion. Total cash consideration has been translated at the rate of £1:C$1.7.

ii. Share option and change of control payments reflect the cash cost of settling share options under the deferred share units, RSUs, PSUs and option plan schemes of £4.6 million and the cash cost of certain executive change of control clauses of £0.6 million.

b) The adjustment of £239.8 million to Cash and cash equivalents reflects £226.3 million of cash consideration and £0.6 million of change of control payments, shown in note 4a), and £12.9 million of expected total transaction costs.

c) Whilst the Drax Group and the Pinnacle Group had certain balances payable to and receivable from each other at 31 December 2020, no adjustment has been made in the Unaudited Pro Forma Financial Information as these balances are not considered material. Furthermore, no adjustment has been made to remove any unrealised profit on certain sales from the Pinnacle Group to the Drax Group which remain in inventory at 31 December 2020, as this balance is not considered material.

d) No adjustment has been made to reflect any synergies that may arise subsequent to Completion as these are dependent upon the future actions of management. Similarly, no adjustment has been made to reflect the impact of any trading activities subsequent to the date of the information presented.

PART B: ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

The Board of Directors
on behalf of Drax Group plc
Drax Power Station
Selby
North Yorkshire
Y08 8PH

RBC Europe Limited
100 Bishopsgate
London
EC2N 4AA

12 March 2021

Dear Sirs/Mesdames,

Drax Group plc (the "Company")

We report on the pro forma financial information (the "**Pro forma financial information**") set out in Part A of Part V (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*) of the Class 1 circular dated 12 March 2021 (the "**Investment Circular**"). This report is required by Annex 20 section 3 of the PR Regulation and as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that regulation and for no other purpose.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Pro forma financial information in accordance with Annex 20 sections 1 and 2 of the PR Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex 20 section 3 of the PR Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary shareholders as a result of the inclusion of this report in the Investment Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Investment Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

Basis of preparation

The pro forma financial information has been prepared on the basis described in notes 1 to 4, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2020.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. We are independent of the Company and Pinnacle Renewable Energy Inc. in accordance with the Financial Reporting Council's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Yours faithfully

Deloitte LLP

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PART VI
ADDITIONAL INFORMATION

1. Responsibility

Drax and the Directors, whose names appear in paragraph 3 below, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of Drax and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Drax

Drax was incorporated and registered in England and Wales as a public limited company on 13 September 2005 under the Companies Act 1985 with registered number 5562053 and the name Drax Group plc. The principal legislation under which Drax operates is the Companies Acts and the regulations made thereunder.

Drax is headquartered in the United Kingdom with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH and its telephone number is +44(0)1757 618381.

3. The Directors and Executive Committee

The Directors of Drax are:

Name	Position
Philip Cox CBE	Chair
Will Gardiner	Chief Executive Officer
Andy Skelton	Chief Financial Officer
David Nussbaum	Senior Independent Non-Executive Director
Nicola Hodson	Independent Non-Executive Director
Vanessa Simms	Independent Non-Executive Director
John Baxter CBE	Independent Non-Executive Director

The Executive Committee of Drax comprises:

Name	Position
Will Gardiner	Chief Executive Officer
Andy Skelton	Chief Financial Officer
Clare Harbord	Director of Corporate Affairs
Jason Shipstone	Chief Innovation Officer
Penny Small	Chief Transformation Officer
Paul Sheffield	Managing Director Customers
Esa Heiskanen	Chief Officer Capital Projects
Mike Maudsley	UK Portfolio Generation Director

The business address of each Director and Executive Committee member is Drax's registered office.

4. Directors' and Executive Committee members' interests in Ordinary Shares

4.1 Holdings in Ordinary Shares

As at the Latest Practicable Date, the interests of each Director and Executive Committee member in the share capital of Drax are as follows:

Director	Number of Ordinary Shares held	Percentage of issued Ordinary Shares
Philip Cox CBE	60,000	0.015080%
Will Gardiner	618,953	0.155561%
Andy Skelton	142,976	0.035934%
David Nussbaum	0	N/A
Nicola Hodson	0	N/A
Vanessa Simms	0	N/A
John Baxter CBE	10,000	0.002513%

Executive Committee member	Number of Ordinary Shares held	Percentage of issued Ordinary Shares
Clare Harbord	42,604	0.010708%
Jason Shipstone	59,851	0.015042%
Penny Small	0	N/A
Paul Sheffield	25,871	0.006502%
Esa Heiskanen	0	N/A
Mike Maudsley	0	N/A

4.2 Other interests

As at the Latest Practicable Date, certain Executive Committee members have the following interests in Ordinary Shares under a number of incentive plans:

Executive Committee member	Name of share plan and award type	Grant date	Number of shares subject to award/ option	Vesting/ first exercisable date
Will Gardiner	Deferred Share Plan Performance Share Plan Deferred Share Plan LTIP 2020	28.03.2019 28.03.2019 30.03.2020 07.05.2020	38,941 247,245 82,195 562,506	28.03.2022 28.03.2022 30.03.2023 07.05.2023
Andy Skelton	Performance Share Plan Deferred Share Plan LTIP 2020	28.03.2019 30.03.2020 07.05.2020	165,607 49,985 320,697	28.03.2022 30.03.2023 07.05.2023
Clare Harbord	Performance Share Plan LTIP 2020	28.03.2019 07.05.2020	68,942 137,244	28.03.2022 07.05.2023
Jason Shipstone	Performance Share Plan LTIP 2020	28.03.2019 07.05.2020	11,662 123,665	28.03.2022 07.05.2023
Penny Small	Performance Share Plan LTIP 2020	28.03.2019 07.05.2020	70,641 140,626	28.03.2022 07.05.2023
Paul Sheffield	Performance Share Plan LTIP 2020	28.03.2019 07.05.2020	14,994 141,733	28.03.2022 07.05.2023

Executive Committee member	Name of share plan and award type	Grant date	Number of shares subject to award/ option	Vesting/ first exercisable date
Esa Heiskanen	Performance Share Plan LTIP 2020	10.10.2019 07.05.2020	99,878 141,958	10.10.2022 07.05.2023
Mike Maudsley	LTIP 2020	27.05.2020	97,465	27.05.2023

As at the Latest Practicable Date, certain Executive Committee members have the following options under the Sharesave scheme:

Executive Committee member	Date of grant	Number of shares subject to option	Option price (£)	Maturity date
Will Gardiner	15.04.2020	23,603	1.271	01.06.2025
Andy Skelton	15.04.2020	23,603	1.271	01.06.2025
Clare Harbord	15.04.2020	14,162	1.271	01.06.2023
Jason Shipstone	15.04.2020	23,603	1.271	01.06.2025
Penny Small	15.04.2020	14,162	1.271	01.06.2023
Esa Heiskanen	15.04.2020	23,603	1.271	01.06.2025
Mike Maudsley	15.04.2020	14,162	1.271	01.06.2023

5. Details of the service contracts of the Directors

Details of the service contracts of the Directors are set out on page 111 of Drax's 2019 Annual Report and Accounts.

6. Major interests in shares

As at the Latest Practicable Date, Drax had received notification in accordance with chapter 5 of the Disclosure and Transparency Rules of the following notifiable interests in the voting rights of Ordinary Shares:

Name of Shareholder	Date notified to the stock exchange	Notified number of voting rights	Notified percentage of voting rights
Schroders plc	03.03.2021	57,680,828	14.5%
Invesco Limited	23.10.2020	38,578,024	9.7%
BlackRock, Inc.	23.06.2020	23,524,482	5.9%
Artemis Investment Management LLP	11.05.2020	20,017,855	5%
Orbis Holdings Limited	16.02.2021	20,018,646	5%

7. Material contracts

7.1 Drax Group

The following contracts (not being contracts entered into in the ordinary course of business) have either: (i) been entered into by Drax or another member of the Drax Group within the period of two years immediately preceding the date of this Circular and are or may be material; or (ii) been entered into by Drax or another member of the Drax Group which contain any provisions under which any member of the Drax Group has any obligation or entitlement which is, or may be, material as at the date of this Circular:

(A) *Acquisition Agreement*

Details of the terms of the Acquisition Agreement are set out in Part III (*Principal Terms of the Acquisition*).

(B) *Pinnacle Directors and management voting support agreements*

A description of the principal terms of the voting support agreements entered into between each of the Pinnacle Directors, and certain current and former members of Pinnacle's management, and Bidco and Drax is set out in Part III (*Principal Terms of the Acquisition*).

(C) *ONCAP II L.P. voting support agreement*

A description of the principal terms of the voting support agreement entered into between ONCAP II L.P. and certain of its affiliates, Bidco and Drax is set out in Part III (*Principal Terms of the Acquisition*).

(D) *Senior Facilities Agreement*

Drax Power, as borrower, entered into a revolving credit facility agreement on 20 December 2012 between, among others, Drax Power, Barclays Bank PLC as facility agent and Drax Corporate, which was amended and restated pursuant to an amendment and restatement agreement on 21 April 2017, with effect from 5 May 2017 and further amended and restated pursuant to an amendment and restatement agreement dated 18 November 2020. The Senior Facilities Agreement comprises a £300 million committed multicurrency working capital and ancillary facility, including, without limitation, a letter of credit facility (the "**Revolving Facility**"). The Revolving Facility can be drawn in pounds sterling, euro or US dollars.

As at the Latest Practicable Date, the Revolving Facility was undrawn in cash.

Borrowers and guarantors

The original borrower under the Senior Facilities Agreement is Drax Corporate. The Senior Facilities Agreement provides for the flexibility of acceding (and subsequently resigning) subsidiaries of Drax Group Holdings incorporated in the UK or in the US (subject to certain customary conditions) as additional borrowers. The Revolving Facility is guaranteed on a joint and several basis by Drax Group Holdings and each of the Guarantors.

Security

The finance parties under the Senior Facilities Agreement have the benefit of the Common Security. The Revolving Facility may be secured by further security interests from time to time subject to certain agreed security principles set out in the Senior Facilities Agreement.

The Senior Facilities Agreement is subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, the proceeds from any distressed disposal and from any enforcement of the Common Security will be applied to the repayment of the Revolving Facility and certain hedging obligations in priority to repayment of the 2025 USD Notes, the 2025 EUR Notes, the Private Placement Facilities, the Term Facilities and the Index-Linked Term Facility.

Purpose

Each loan under the Revolving Facility may be used: (i) to provide cash collateral in favour of certain permitted counterparties; (ii) to provide cash cover in favour of an issuing bank of a letter of credit or in respect of an ancillary facility under the Senior Facilities Agreement; and (iii) for the other general corporate purposes of the Restricted Group, including, but not limited to, financing working capital requirements.

Availability and maturity

The Revolving Facility is available to be drawn until one month prior to the final maturity date and letters of credit may be issued up until the final maturity date (in each case, as such may be extended). The Revolving Facility has an initial maturity date of 31 January 2025, with an option to extend to 31 January 2026.

The Revolving Facility may be utilised by way of letter of credit, reducing the amount available for cash drawings under the Revolving Facility by an amount equivalent to the letters of credit issued.

Prepayment / cancellation

The Senior Facilities Agreement contains customary provisions for the prepayment and cancellation of a particular lender's commitments in the case of a defaulting lender, additional payments being charged for tax reasons or increased costs.

Subject to certain conditions, the borrowers under the Revolving Facility may voluntarily prepay their utilisations or permanently cancel all or part of the available commitments under the Revolving Facility. Amounts voluntarily prepaid may be re-borrowed during the availability period applicable to the Revolving Facility.

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Revolving Facility upon the occurrence of certain events such as change of control, illegality and sale of all or substantially all of the assets of the Restricted Group.

The Senior Facilities Agreement provides that no members of the Drax Group may repay, purchase, defease or redeem (or otherwise retire for value) the 2025 USD Notes or the 2025 EUR Notes using the proceeds of an asset disposition (if such disposition meets certain criteria set out in the Senior Facilities Agreement) unless:

(i) either:

- the aggregate principal amount of all 2025 USD Notes and 2025 EUR Notes prepaid, purchased, defeased, redeemed (or otherwise retired for value) or acquired since their respective issue date is less than or equal to 50 per cent. of the aggregate principal amount of the 2025 USD Notes and 2025 EUR Notes issued as of their issue date; or
- to the extent that members of the Drax Group make prepayments, purchases, defeasances, redemptions (or other retirements for value) or acquisitions that in the aggregate exceed 50 per cent. of the aggregate principal amount of the 2025 USD Notes and 2025 EUR Notes issued as of the issue date of those notes, the Drax Group is obligated to match the prepayment, purchase, defeasance, redemption (or other retirement for value) by a simultaneous cancellation and, if necessary, repayment of an equal amount under the Senior Facilities Agreement in order that the total commitments under the Senior Facilities Agreement are reduced by the same proportion as the debt so repurchased relative to aggregate principal amount of 2025 USD Notes and 2025 EUR Notes issued as of their respective issue date; and

(ii) no default will continue or result from the prepayment, purchase, defeasance, redemption (or other retirement for value).

Interest and fees

Interest is payable under the Revolving Facility at a rate of LIBOR or, in the case of loans in euro, EURIBOR (in each case subject to a zero floor) plus the applicable margin. Save for in circumstances where an event of default has occurred and is continuing or the borrower has failed to notify the facility agent of a change in rating, the applicable margin is determined by reference to a ratings matrix, ranging from a maximum of 2.625 per cent. where the rating of the debt incurred under the Revolving Facility is BB-/Ba3 or lower to a minimum of 1.125 per cent. where such rating is BBB/Baa2 or higher.

The margin is subject to adjustment based on the Drax Group's total carbon dioxide emissions per GWh of electricity generation, measured annually (the "**ESG Metric Result**"). Where the ESG Metric Result is less than or equal to the Drax Group's emissions target (the "**ESG Metric Benchmark**") and the Drax annual financial statements include a verification statement from an independent third-party providing at least limited assurance on the Drax Group's reporting of greenhouse gas emissions (the "**Verification Condition**"), the applicable margin will be reduced by an appropriate ESG adjustment. Where either: (i) the ESG Metric Result exceeds the ESG Metric Benchmark, (ii) the Verification Condition is not met, (iii) the ESG Metric Result is not set out in the Drax annual financial statements or (iv) Drax's annual financial statements are not delivered, the applicable margin will be increased by an appropriate ESG adjustment.

A commitment fee is payable quarterly in arrears on the available but unused commitments under the Revolving Facility at a rate of 35 per cent. of the applicable margin. A utilisation fee is payable quarterly in arrears at a rate of (i) 0.20 per cent. per annum for each day on which the aggregate amount of the utilised commitments under the Revolving Facility exceeds 50 per cent. of the total commitments under the Revolving Facility; or (ii) 0.40 per cent. per annum for each day on which the aggregate amount of the utilised commitments under the Revolving Facility exceeds 75 per cent. of the total commitments under the Revolving Facility.

Financial covenants

The Senior Facilities Agreement contains a financial covenant requiring the Restricted Group's consolidated EBITDA for the prior 12-month period to be no less than £225 million as at any applicable semi-annual testing date (at the end of June and December each year). This covenant will be tested only where drawings for general corporate purposes described above are 40 per cent. or more of the total commitments as at the relevant semi-annual testing date.

Representations, covenants and events of default

The Senior Facilities Agreement contains certain negative undertakings that are substantially similar to those in the 2025 USD Notes Indenture governing the 2025 USD Notes, as described below. The Senior Facilities Agreement also contains customary negative covenants, subject to certain agreed exceptions, including, but not limited to, (i) restrictions on change of business; (ii) centre of main interests; (iii) share capital; (iv) purchase or redemption of the 2025 USD Notes and 2025 EUR Notes; (v) activities of Drax Group Holdings; (vi) incurrence of certain indebtedness by non-obligor subsidiaries; (vii) certain disposals of assets to non-obligor subsidiaries and (viii) changes to Drax's year end.

The Senior Facilities Agreement also requires each obligor to observe certain affirmative covenants subject to materiality and other customary and agreed exceptions. These affirmative covenants include, but are not limited to, covenants related to: (i) compliance with relevant laws, rules and regulations (including environmental, sanctions and anti-corruption); (ii) payment of taxes; (iii) the delivery of certain financial statements; (iv) rating; (v) notice of default and material litigation; (vi) right to request information relating to the Drax Group's financial condition;

(vii) insurance; (viii) maintenance of assets; and (ix) compliance with and maintenance of material authorisations. There is also an affirmative covenant in relation to guarantor coverage (by reference to 75 per cent. of the Restricted Group's consolidated EBITDA and consolidated total assets), subject to certain exceptions. The Senior Facilities Agreement also contains representations that are customary for debt facilities of this nature.

The Senior Facilities Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, breach of other obligations, misrepresentation, cross-default, insolvency, insolvency proceedings, creditors' process, cessation of business, effectiveness of finance documents, ownership of obligors and proceedings. In addition to these customary events of default, the Senior Facilities Agreement contains events of default reflective of the nature of the Drax Group's business, relating to the generation licence granted to Drax Power pursuant to the Electricity Act 1989 and nationalisation. At any time after the occurrence of an event of default, the facility agent may, and on the instruction of majority lenders must, cancel all or any part of the total commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand.

Governing law

The Senior Facilities Agreement is governed by and construed and enforced in accordance with English law, although the incurrence covenants contained therein, which largely replicate the relevant covenants from the 2025 USD Notes, are interpreted in accordance with the laws of the State of New York.

(E) *2025 USD Notes Indenture*

On 26 April 2018, Drax Finco issued US$300 million aggregate principal amount of 6.625 per cent. senior secured notes due 2025 and on 16 May 2019, Drax Finco issued a further US$200 million aggregate principal amount of 6.625 per cent. senior secured notes due 2025, each under an indenture dated as of 26 April 2018, as amended and restated from time to time and as supplemented by supplemental indentures dated 12 February 2019 and 16 May 2019.

The 2025 USD Notes will mature on 1 November 2025. The 2025 USD Notes were issued in minimum denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof. The 2025 USD Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof.

Guarantees and security

The 2025 USD Notes are guaranteed on a joint and several basis by Drax Group Holdings, Drax Corporate and each of the Guarantors (other than Drax Finco).

The 2025 USD Notes and the guarantees thereof are secured by the Common Security. The 2025 USD Notes may be secured by further security interests from time to time subject to certain agreed security principles set out in the Senior Facilities Agreement.

The 2025 USD Notes are subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Common Security, the holders of the 2025 USD Notes will receive proceeds from the enforcement of the Common Security or from certain distressed disposals of the Common Security *pari passu* with the holders of the 2025 EUR Notes, the lenders under the Private Placement Agreement, the lenders under the Term Facilities Agreement and the lenders under the Index-Linked Term Facility and only after certain other creditors, including the lenders under the Senior Facilities Agreement and counterparties to certain hedging obligations have been repaid in full.

Prepayments and redemption

At any time prior to 1 May 2021, Drax Finco may on any one or more occasions redeem up to 40 per cent. of the original principal amount of the 2025 USD Notes, subject to the terms of, and at the redemption prices specified in, the 2025 USD Notes Indenture, plus accrued and unpaid interest and additional tax amounts to the redemption date, with the proceeds of an equity offering provided that: (i) at least 50 per cent. of the original principal amount of the 2025 USD Notes issued under the 2025 USD Notes Indenture remains outstanding after each such redemption, and (ii) the redemption occurs within 180 days after the closing of such equity offering.

At any time prior to 1 May 2021, Drax Finco may redeem all or, from time to time, part of the 2025 USD Notes, subject to the terms of the 2025 USD Notes Indenture, and at a redemption price equal to 100 per cent. of the principal amount of the 2025 USD Notes, plus the applicable premium plus accrued and unpaid interest and additional tax amounts to the redemption date.

On and after 1 May 2021, Drax Finco may redeem all or, from time to time, part of the 2025 USD Notes, subject to the terms of, and at the redemption prices specified in, the 2025 USD Notes Indenture, plus accrued and unpaid interest and additional tax amounts to the redemption date.

In connection with any tender offer for, or other offer to purchase, all of the 2025 USD Notes, in the event that holders of not less than 90 per cent. of the aggregate principal amount of the outstanding 2025 USD Notes validly tender and do not validly withdraw such 2025 USD Notes in such tender offer or offer to purchase and Drax Finco or a third-party making such tender offer or offer to purchase all the 2025 USD Notes held by such holders, within 60 days of such purchase, Drax Finco will have the right, upon not less than 10 and no more than 60 days' prior notice, to redeem all (but not less than all) the 2025 USD Notes of the same series that remain outstanding following such purchase at a redemption price equal to the highest price (excluding any early tender premium or similar payment) paid to each other holder in such tender offer or offer to purchase, plus, to the extent not included in the tender offer or offer to purchase payment, accrued and unpaid interest to the date of such redemption.

Upon the occurrence of certain events constituting a change of control, Drax Finco may be required to make an offer to repurchase the 2025 USD Notes at a redemption price equal to 101 per cent. of the principal amount of the 2025 USD Notes repurchased, plus accrued and unpaid interest and additional tax amounts to the date of purchase.

Drax Finco may redeem the 2025 USD Notes in whole, but not in part, at any time in certain circumstances if Drax Finco determines in good faith that, as a result of any change in tax law in any applicable tax jurisdiction, Drax Finco would become obligated to pay additional amounts on payments on the 2025 USD Notes.

Subject to the provisions of the Intercreditor Agreement, Drax Finco may repurchase 2025 USD Notes at any time and from time to time in the open market or otherwise.

Interest

Interest on the 2025 USD Notes accrues at a rate of 6.625 per cent. per annum and is payable in cash semi-annually in arrears on 1 May and 1 November of each year.

Covenants and events of default

The 2025 USD Notes Indenture contains a number of negative covenants that, among other things, restrict, subject to certain exceptions, the ability of any member of the Restricted Group to: (i) incur or guarantee additional indebtedness; (ii) make investments or other restricted payments; (iii) pay dividends or make other distributions or purchase or redeem stock; (iv) enter into agreements that restrict the Restricted Group's ability to pay dividends; (v) transfer or sell assets; (vi) engage in transactions with affiliates; (vii) create or permit to exist liens on assets to secure indebtedness; and (viii) impair or consolidate with or into another company. Each of these covenants is subject to significant exceptions and qualifications. In addition, the 2025 USD Notes Indenture contains certain customary events of default.

Governing law

The 2025 USD Notes Indenture and the 2025 USD Notes, and the rights and duties of the parties thereunder, are governed by and construed in accordance with the laws of the State of New York.

(F) 2025 EUR Notes Indenture

On 4 November 2020, Drax Finco issued €250 million aggregate principal amount of 2.625 per cent. senior secured notes due 2025 under an indenture dated as of 4 November 2020.

The 2025 EUR Notes will mature on 1 November 2025. The 2025 EUR Notes were issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof. The 2025 EUR Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof.

Guarantees and security

The 2025 EUR Notes are guaranteed on a joint and several basis by Drax Group Holdings, Drax Corporate and each of the Guarantors (other than Drax Finco).

The 2025 EUR Notes and the guarantees thereof are secured by the Common Security. The 2025 EUR Notes may be secured by further security interests from time to time subject to certain agreed security principles set out in the Senior Facilities Agreement.

The 2025 EUR Notes are subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Common Security, the holders of the 2025 EUR Notes will receive proceeds from the enforcement of the Common Security or from certain distressed disposals of the Common Security *pari passu* with the holders of the 2025 USD Notes, the lenders under the Private Placement Agreement, the lenders under the Term Facilities Agreement and the lenders under the Index-Linked Term Facility Agreement and only after certain other creditors, including the lenders under the Senior Facilities Agreement and counterparties to certain hedging obligations have been repaid in full.

Prepayments and redemption

At any time prior to 1 November 2022, Drax Finco may on any one or more occasions redeem up to 40 per cent. of the original principal amount of the 2025 EUR Notes, subject to the terms of, and at the redemption prices specified in, the 2025 EUR Notes Indenture, plus accrued and unpaid interest and additional tax amounts to the redemption date, with the proceeds of an equity offering provided that: (i) at least 50 per cent. of the original principal amount of the 2025 EUR Notes issued under the 2025 EUR Notes Indenture remains outstanding after each such redemption, and (ii) the redemption occurs within 180 days after the closing of such equity offering.

At any time prior to 1 November 2022, Drax Finco may redeem all or, from time to time, part of the 2025 EUR Notes, subject to the terms of the 2025 EUR Notes Indenture, and at a redemption price equal to 100 per cent. of the principal amount of the 2025 EUR Notes, plus the applicable premium plus accrued and unpaid interest and additional tax amounts to the redemption date.

On and after 1 November 2022, Drax Finco may redeem all or, from time to time, part of the 2025 EUR Notes, subject to the terms of, and at the redemption prices specified in, the 2025 EUR Notes Indenture, plus accrued and unpaid interest and additional tax amounts to the redemption date.

In connection with any tender offer for, or other offer to purchase, all of the 2025 EUR Notes, in the event that holders of not less than 90 per cent. of the aggregate principal amount of the outstanding 2025 EUR Notes validly tender and do not validly withdraw such 2025 EUR Notes in such tender offer or offer to purchase and Drax Finco or a third party making such tender offer or offer to purchase all the 2025 EUR Notes held by such holders, within 60 days of such purchase, Drax Finco will have the right, upon not less than 10 and no more than 60 days' prior notice, to redeem all (but not less than all) the 2025 EUR Notes of the same series that remain outstanding following such purchase at a redemption price equal to the highest price (excluding any early tender premium or similar payment) paid to each other holder in such tender offer or offer to purchase, plus, to the extent not included in the tender offer or offer to purchase payment, accrued and unpaid interest to the date of such redemption.

Upon the occurrence of certain events constituting a change of control, Drax Finco may be required to make an offer to repurchase the 2025 EUR Notes at a redemption price equal to 101 per cent. of the principal amount of the 2025 EUR Notes repurchased, plus accrued and unpaid interest and additional tax amounts to the date of purchase.

Drax Finco may redeem the 2025 EUR Notes in whole, but not in part, at any time in certain circumstances if Drax Finco determines in good faith that, as a result of any change in tax law in any applicable tax jurisdiction, Drax Finco would become obligated to pay additional amounts on payments on the 2025 EUR Notes.

Subject to the provisions of the Intercreditor Agreement, Drax Finco may repurchase 2025 EUR Notes at any time and from time to time in the open market or otherwise.

Interest

Interest on the 2025 EUR Notes accrues at a rate of 2.625 per cent. per annum and is payable in cash semi-annually in arrears on 1 May and 1 November of each year.

Covenants and events of default

The 2025 EUR Notes Indenture contains a number of negative covenants that, among other things, restrict, subject to certain exceptions, the ability of any member of the Restricted Group to: (i) incur or guarantee additional indebtedness; (ii) make investments or other restricted payments; (iii) pay dividends or make other distributions or purchase or redeem stock; (iv) enter into agreements that restrict the Restricted Group's ability to pay dividends; (v) transfer or sell assets; (vi) engage in transactions with affiliates; (vii) create or permit to exist liens on assets to secure indebtedness; and (viii) impair or consolidate with or into another company. Each of these covenants is subject to significant exceptions and qualifications. In addition, the 2025 EUR Notes Indenture contains certain customary events of default.

Governing law

The 2025 EUR Notes Indenture and the 2025 EUR Notes, and the rights and duties of the parties thereunder, are governed by and construed in accordance with the laws of the State of New York.

(G) Private Placement Agreement

Drax Corporate, as borrower, entered into a private placement facility agreement on 24 July 2019 between, among others, Drax Corporate, Banco Santander S.A., London Branch as facility agent and Drax Group Holdings as parent guarantor. The Private Placement Agreement comprises a £375 million term loan facility structured in four tranches (A-D) (the "**Private Placement Facilities**"). The Private Placement Facilities can only be drawn in pound sterling.

As at the Latest Practicable Date, Drax Corporate had drawn £375 million under the Private Placement Facilities.

Security

The finance parties under the Private Placement Agreement have the benefit of the Common Security. The Private Placement Facilities may be secured by further security interests from time to time subject to certain agreed security principles set out in the Private Placement Agreement.

The Private Placement Agreement is subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Common Security, the lenders under the Private Placement Agreement will receive proceeds from the enforcement of the Common Security or from certain distressed disposals of the Common Security *pari passu* with the holders of the 2025 USD Notes, the holders of the 2025 EUR Notes, the lenders under the Term Facilities Agreement and the lenders under the Index-Linked Term Facility Agreement and only after certain other creditors, including the lenders under the Senior Facilities Agreement and counterparties to certain hedging obligations have been repaid in full.

Purpose

Amounts borrowed under the Private Placement Agreement were made available to (i) repay the outstanding indebtedness under the 2018 Bridge Facility Agreement and (ii) pay estimated fees and expenses arising in connection with the refinancing of the 2018 Bridge Facility Agreement, including prepayment fees, underwriting fees and commissions, professional fees and other associated transaction costs, including those arising in connection with the associated finance documents.

Availability and maturity

The Private Placement Facilities were fully drawn on 8 August 2019 and the four tranches have varying maturity dates: (i) in respect of facility A, 54 months after the date of the Private Placement Agreement; (ii) in respect of facility B, 66 months after the date of the Private Placement Agreement; (iii) in respect of facility C, 78 months after the date of the Private Placement Agreement; and (iv) in respect of facility D, the tenth anniversary of the date of the Private Placement Agreement.

Prepayment / cancellation

The Private Placement Agreement contains customary provisions for the prepayment and cancellation of a particular lender's commitments in the case of a defaulting lender, subject to a right of the borrower to replace that lender with an alternative lender, and additional payments being charged for tax reasons or increased costs.

Subject to certain conditions, the borrower may voluntarily prepay the loan in whole or in part or permanently cancel all or part of the available commitments under the Private Placement Facilities. Amounts voluntarily prepaid may not be re-borrowed.

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Private Placement Facilities upon the occurrence of certain events such as change of control, illegality and sale of all or substantially all of the assets of the Restricted Group.

The Private Placement Agreement makes provision for mandatory prepayment in the amount of consideration received in excess of £200 million for a single asset disposition or £400 million in aggregate from asset dispositions. A ratings downgrade event mandatory prepayment event also applies to facility D from the facility C maturity date (at which point only facility D will be outstanding) where the rating of Drax Group Holdings is downgraded to BB/Ba2 or lower.

Interest

Interest is payable under the Private Placement Agreement at a rate of LIBOR (subject to a zero floor) plus the margin applicable to the relevant facility. The relevant margin is (i) in relation to facility A, 1.90 per cent. per annum, (ii) in relation to facility B, 2.15 per cent. per annum, (iii) in relation to facility C, 2.40 per cent. per annum, and (iv) in relation to facility D, 2.75 per cent. per annum.

Financial covenants

The Private Placement Agreement does not contain any financial maintenance covenants until 31 December 2026. The agreement contains a financial covenant requiring the Restricted Group's consolidated EBITDA for the prior twelve-month period to be no less than £300 million as at any covenant calculation date falling after the seventh anniversary of the date of the Private Placement Agreement (being 31 December 2026 and each 30 June and 31 December thereafter).

Restrictions, covenants and events of default

The Private Placement Agreement contains certain negative undertakings that are substantially similar to those in the 2025 USD Notes Indenture governing the 2025 USD Notes, as described above. The Private Placement Agreement also contains customary negative covenants, subject to certain agreed exceptions, including, but not limited to, (i) restrictions on change of business; (ii) centre of main interests; (iii) share capital; (iv) sanctions and anti-corruption; and (v) incurrence of certain indebtedness.

The Private Placement Agreement also requires each obligor to observe certain affirmative covenants subject to materiality and other customary and agreed exceptions. These affirmative covenants include, but are not limited to, covenants related to: (i) compliance with relevant laws, rules and regulations (including environmental, sanctions and anti-corruption); (ii) payment of taxes; (iii) the delivery of certain financial statements; (iv) rating; (v) notice of default and material litigation; (vi) right to request information relating to the Drax Group's financial condition; (vii) insurance; (viii) maintenance of assets; (ix) compliance with and maintenance of material authorisations; and (x) maintenance of *pari passu* ranking.

The Private Placement Agreement includes a lock-up event, pursuant to which certain distributions by members of the Restricted Group are prohibited, subject to exceptions. A lock-up event will occur where, on any covenant calculation date (being 31 December 2019 and each following 30 June and 31 December), the consolidated net leverage ratio for the 12 month period ending on that calculation date is less than 6.0 to 1.0 but greater than or equal to 4.0 to 1.0. If on any such calculation date the consolidated net leverage ratio for the 12 month period ending on that calculation date is greater than or equal to 6.0 to 1.0, an event of default will be deemed to have occurred.

The Private Placement Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, breach of other obligations, misrepresentation, cross-default, insolvency, insolvency proceedings, creditors' process, cessation of business, effectiveness of finance documents, ownership of obligors and proceedings. In addition to these customary events of default, the Private Placement Agreement contains events of default reflective of the nature of the Drax Group's business, relating to the generation licence granted to Drax Power pursuant to the Electricity Act 1989, nationalisation, and relating to the breach of the consolidated net leverage ratio covenant described above. At any time after the occurrence of an event of default, the facility agent may, and on the instruction of majority lenders must, cancel all or any part of the total commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand and/or exercise or direct the Security Agent (being Deutsche Bank AG, London Branch) to exercise any or all of its rights, remedies, powers or discretions under the finance documents.

Governing law

The Private Placement Agreement is governed by and construed and enforced in accordance with English law, although the incurrence covenants contained therein, which largely replicate the relevant covenants from the 2025 USD Notes, are interpreted in accordance with the laws of the State of New York.

(H) Term Facilities Agreement

Drax Corporate, as borrower, entered into a term loan facilities agreement on 18 August 2020 between, among others, Drax Corporate, Banco Santander S.A., London Branch as facility agent and Drax Group Holdings as parent guarantor. The Term Facilities Agreement comprises €126.5 million and £98 million term loan facilities structured in seven tranches (A-G) (the "**Term Facilities**"), with the option to obtain up to an additional £22 million in one or more additional tranches. The Term Facilities can only be drawn in pound sterling or euro (as applicable).

As at the Latest Practicable Date, Drax Corporate had drawn €126.5 million and £98 million under the Term Facilities.

Borrowers and guarantors

The original borrower under the Term Facilities Agreement is Drax Corporate. The Term Facilities Agreement provides for the flexibility of acceding (and subsequently resigning) subsidiaries of Drax Group Holdings incorporated in the UK or in the US (subject to certain customary conditions) as additional borrowers. The Term Facilities are guaranteed on a joint and several basis by Drax Group Holdings and each of the Guarantors.

Security

The finance parties under the Term Facilities Agreement have the benefit of the Common Security. The Term Facilities may be secured by further security interests from time to time subject to certain agreed security principles set out in the Term Facilities Agreement.

The Term Facilities Agreement is subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Common Security, the lenders under the Term Facilities Agreement will receive proceeds from the enforcement of the Common Security or from certain distressed disposals of the Common Security *pari passu* with the holders of the 2025 USD Notes, the holders of the 2025 EUR Notes, the lenders under the Private Placement Agreement and the lenders under the Index-Linked Term Facility Agreement and only after certain other creditors, including the lenders under the Senior Facilities Agreement and counterparties to certain hedging obligations have been repaid in full.

Purpose

Amounts borrowed under the Term Facilities Agreement are made available for the general corporate purposes of the Restricted Group.

Availability and maturity

As at the Latest Practicable Date, the Term Facilities Agreement was fully drawn. The seven tranches have varying maturity dates: (i) in respect of facility A, 31 January 2024, (ii) in respect of facility B, 30 January 2026, (iii) in respect of facility C, 30 January 2026, (iv) in respect of facility D, 29 January 2027, (v) in respect of facility E, 29 January 2027, (vi) in respect of facility F, the tenth anniversary of the Term Facilities Agreement and (vii) in respect of facility G, 29 January 2028.

Prepayment / cancellation

The Term Facilities Agreement contains customary provisions for the prepayment and cancellation of a particular lender's commitments in the case of a defaulting lender, subject to a right of the borrower to replace that lender with an alternative lender, and additional payments being charged for tax reasons or increased costs.

Subject to certain conditions, the borrower may voluntarily prepay the loan in whole or in part or permanently cancel all or part of the available commitments under the Term Facilities. Amounts prepaid may not be re-borrowed.

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Term Facilities Agreement upon the occurrence of certain events such as change of control, illegality and sale of all or substantially all of the assets of the Restricted Group. The Term Facilities Agreement makes provision for mandatory prepayment in the amount of consideration received in excess of £200 million for a single asset disposition or £400 million in aggregate from asset dispositions. Minimum EBITDA and guarantor coverage mandatory prepayment events also apply to facility F and facility G from the fifth anniversary of the Term Facilities Agreement. From the fifth anniversary of the Term Facilities Agreement, consolidated EBITDA must be a minimum of £200 million, and at least 75 per cent. of the Restricted Group's consolidated EBITDA and must be attributable to the Guarantors and the Guarantors' gross assets must represent at least 75 per cent. of the total assets of the Restricted Group.

Interest

Interest is payable under the Term Facilities Agreement (other than under facility F) at a rate of LIBOR (subject to a zero floor) in the case of loans denominated in sterling or EURIBOR (subject to a zero floor) in the case of loans denominated in euro plus the margin applicable to the relevant facility. The relevant margin is (i) in relation to facility A, 1.40 per cent. per annum, (ii) in relation to facility B, 1.55 per cent. per annum, (iii) in relation to facility C, 1.55 per cent. per annum, (iv) in relation to facility D, 1.50 per cent. per annum, (v) in relation to facility E, 1.55 per cent. per annum and (vi) in relation to facility G, 2.70 per cent. per annum. Interest is payable under facility F at a fixed rate of 3.50 per cent. per annum, and can be ratcheted upwards to a maximum of 4.00 per cent. per annum depending on the rating from time to time of Drax Group Holdings' secured long-term debt obligations.

Financial covenants

The Term Facilities Agreement does not contain any financial maintenance covenants until 31 December 2025. The Term Facilities Agreement contains a financial covenant requiring the Restricted Group's consolidated EBITDA for the prior twelve-month period to be no less than £200 million as at any covenant calculation date falling after the fifth anniversary of the Term Facilities Agreement (being 31 December 2025 and each 30 June and 31 December thereafter).

Restrictions, covenants and events of default

The Term Facilities Agreement contains certain negative undertakings that are substantially similar to those in the 2025 USD Notes Indenture governing the 2025 USD Notes (as described above). The Term Facilities Agreement also contains customary negative covenants, subject to certain agreed exceptions, including, but not limited to (i) restrictions on change of business, (ii) centre of main interests, (iii) share capital, (iv) sanctions and anti-corruption and (v) incurrence of certain indebtedness.

The Term Facilities Agreement also requires each obligor to observe certain affirmative undertakings subject to materiality and other customary and agreed exceptions. These affirmative undertakings include, but are not limited to, undertakings related to (i) compliance with relevant laws, rules and regulations (including environmental, sanctions and anti-corruption), (ii) payment of taxes, (iii) the delivery of certain financial statements, (iv) rating, (v) notice of default and material litigation, (vi) right to receive information relating to our financial condition provided to certain other creditors, (vii) insurance, (viii) maintenance of assets, (ix) compliance with and maintenance of material authorisations and (x) maintenance of *pari passu* ranking.

The Term Facilities Agreement includes a lock-up event, pursuant to which certain distributions by members of the Restricted Group are prohibited, subject to exceptions. A lock-up event will occur where, on any covenant calculation date (being each 30 June and 31 December), the consolidated net leverage ratio for the 12 month period ending on that calculation date is less than 6.0 to 1.0 but greater than or equal to 4.0 to 1.0. If on any such calculation date the consolidated net leverage ratio for the 12 month period ending on that calculation date is greater than or equal to 6.0 to 1.0, an event of default will be deemed to have occurred.

The Term Facilities Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, breach of other obligations, misrepresentation, cross-default, insolvency, insolvency proceedings, creditors' process, cessation of business, effectiveness of finance documents, ownership of obligors and proceedings. In addition to these customary events of default, the Term Facilities Agreement contains events of default reflective of the nature of our business, relating to the generation licence granted to Drax Power pursuant to the Electricity Act 1989 and nationalisation, and relating to the breach of the consolidated net leverage ratio covenant described above. At any time after the occurrence of an event of default, the facility agent may, and on the instruction of majority lenders must, cancel all or any part of the total commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand and/or exercise or direct the Security Agent (being Deutsche Bank AG, London Branch) to exercise any or all of its rights, remedies, powers or discretions under the finance documents.

Governing law

The Term Facilities Agreement is governed by and construed and enforced in accordance with English law, although the incurrence covenants contained therein, which largely replicate the relevant covenants from the 2025 USD Notes, shall be interpreted in accordance with the laws of the State of New York.

(I) *Index-Linked Term Facility Agreement*

Drax Corporate, as borrower, entered into an index-linked term facility agreement on 18 November 2020 between, among others, Drax Corporate, Drax Finco and M&G Inflation Opportunities Fund, a sub-fund of Specialist Investment Funds (4) Common Contractual Fund. The Index-Linked Term Facility Agreement documents a £35 million committed sterling term loan facility (the "**Index-Linked Term Facility**"). The Index-Linked Term Facility was previously documented under the Senior Facilities Agreement.

As at the Latest Practicable Date, the Index-Linked Term Facility was fully drawn.

Borrowers and guarantors

The original borrower under the Index-Linked Term Facility Agreement is Drax Corporate. The Index-Linked Term Facility Agreement provides for the flexibility of acceding (and subsequently resigning) subsidiaries of Drax Group Holdings incorporated in the UK or in the US (subject to certain customary conditions) as additional borrowers. The Index-Linked Term Facility is guaranteed on a joint and several basis by Drax Group Holdings and each of the Guarantors.

Security

The finance parties under the Index-Linked Term Facility Agreement have the benefit of the Common Security. The Index-Linked Term Facility may be secured by further security interests from time to time subject to certain agreed security principles set out in the Index-Linked Term Facility Agreement.

The Index-Linked Term Facility Agreement is subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Common Security, the lenders under the Index-Linked Term Facility Agreement will receive proceeds from the enforcement of the Common Security or from certain distressed disposals of the Common Security pari passu with the holders of the 2025 USD Notes, the holders of the 2025 EUR Notes, the lenders under the Private Placement Agreement and the lenders under the Term Facilities Agreement and only after certain other creditors, including the lenders under the Senior Facilities Agreement and counterparties to certain hedging obligations have been repaid in full.

Purpose

Each loan under the Index-Linked Term Facility Agreement may be for the general corporate purposes of the Drax Group.

Availability and maturity

The Index-Linked Term Facility Agreement has a maturity date of 31 March 2022.

Prepayment / cancellation

Subject to certain conditions, the borrower may voluntarily prepay the loan in whole or in part at an amount equal to the principal amount so prepaid multiplied by the index ratio at the relevant prepayment date, plus a make-whole amount (as described below).

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Index-Linked Term Facility upon the occurrence of certain events such as change of control, illegality and sale of all or substantially all of the assets of the Restricted Group. There is also a mandatory prepayment required to be made in respect of the Index-Linked Term Facility Agreement in the event that the applicable index ceases to be published and no appropriate successor index can be determined.

A make-whole amount is payable in respect of certain prepayments under the Index-Linked Term Facility Agreement. The applicable make-whole amount in respect of these prepayments is calculated by reference to the excess, if any, of the discounted value of the remaining scheduled payments of principal and interest under the Index-Linked Term Facility Agreement with respect to the principal amount prepaid, over the amount of such principal prepaid. The applicable discount factor is calculated by reference to the applicable percentage (which is determined by reference to the nature of the relevant prepayment) plus the yield to maturity of the specified reference gilt.

Interest

Interest is payable under the Index-Linked Term Facility Agreement at a rate calculated by multiplying a fixed rate of 4.886 per cent. per annum by the index ratio applicable to the relevant interest payment date multiplied by the outstanding principal amount of the Index-Linked Term Facility Agreement. The relevant index for calculation of the index ratio is the Non-revised Retail Price Index All Items in the United Kingdom as published by the Office of National Statistics.

Financial covenants

The Index-Linked Term Facility Agreement contains a financial covenant requiring the Restricted Group's consolidated EBITDA for the prior 12-month period to be no less than £170 million as at any applicable semi-annual testing date (at the end of June and December each year).

Restrictions, covenants and events of default

The Index-Linked Term Facility Agreement contains certain negative undertakings that are substantially similar to those in the 2025 USD Notes Indenture governing the 2025 USD Notes, as described above. The Index-Linked Term Facility Agreement also contains customary negative covenants, subject to certain agreed exceptions, including, but not limited to, (i) restrictions on change of business; (ii) centre of main interests; (iii) share capital; (iv) purchase or redemption of the 2025 USD Notes and 2025 EUR Notes; (v) activities of Drax Group Holdings; (vi) incurrence of certain indebtedness by non-obligor subsidiaries; (vii) certain disposals of assets to non-obligor subsidiaries; and (viii) changes to Drax's year end.

The Index-Linked Term Facility Agreement also requires each obligor to observe certain affirmative covenants subject to materiality and other customary and agreed exceptions. These affirmative covenants include, but are not limited to, covenants related to: (i) compliance with relevant laws, rules and regulations (including environmental, sanctions and anti-corruption); (ii) payment of taxes; (iii) the delivery of certain financial statements; (iv) rating; (v) notice of default and material litigation; (vi) right to request information relating to the Drax Group's financial condition; (vii) insurance; (viii) maintenance of assets; and (ix) compliance with and maintenance of material authorisations. There is also an affirmative covenant in relation to guarantor coverage (by reference to 75 per cent. of the Restricted Group's consolidated EBITDA and consolidated total assets), subject to certain exceptions. The Index-Linked Term Facility Agreement also contains representations that are customary for debt facilities of this nature.

The Index-Linked Term Facility Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, breach of other obligations, misrepresentation, cross-default, insolvency, insolvency proceedings, creditors' process, cessation of business, effectiveness of finance documents, ownership of obligors and proceedings. In addition to these customary events of default, the Private Placement Agreement contains events of default reflective of the nature of the Drax Group's business, relating to the generation licence granted to Drax Power pursuant to the Electricity Act 1989, nationalisation, and relating to the breach of the consolidated net leverage ratio covenant described above. At any time after the occurrence of an event of default, the facility agent may, and on the instruction of majority lenders must, cancel all or any part of the total commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand.

Governing law

The Index-Linked Term Facility Agreement is governed by and construed and enforced in accordance with English law, although the incurrence covenants contained therein, which largely replicate the relevant covenants from the 2025 USD Notes, are interpreted in accordance with the laws of the State of New York.

(J) *Investment Contract relating to the Drax 3rd Conversion Unit (Unit 1)*

On 9 May 2014, Drax Power (a member of the Drax Group) entered into the Investment Contract, a contract relating to Unit 1, its third coal-to-biomass conversion unit, with the Secretary of State for Energy and Climate Change. The Investment Contract was most recently amended on 3 February 2017. Such investment contracts were introduced by the UK Government to support the development of low-carbon electricity and to encourage the renewables sector.

The Investment Contract works by stabilising revenues attributed to Drax Power's Unit 1 at a fixed price level known as the "strike price". Unit 1 will receive revenue from selling electricity into the market as usual. However, when the market reference price (as specified in the Investment Contract) is below the strike price, Drax Power will receive a payment to cover the difference. Conversely, if the market reference price is above the strike price, Drax Power will be required to make a payment for the difference. The effect of the Investment Contract is therefore to remove the uncertainty of Drax Power's revenue stream in relation to Unit 1 until 31 March 2027 when the term of the Investment Contract expires.

The Investment Contract is subject to the Investment Contract Standard Terms and Conditions dated 9 May 2014 (as most recently amended on 3 February 2017) which require Drax Power to meet certain requirements and milestones and provide for early termination of the Investment Contract in the event that Drax Power is unable to meet certain of its obligations under the Investment Contract.

(K) *Haven Power MRTSA*

Haven Power Limited ("**Haven Power**") entered into a master receivables transfer and servicing agreement on 23 June 2016, as most recently amended on 30 April 2018 ("**Haven Power MRTSA**"), under which Haven Power as seller and servicer sells trade receivables to Ester Finance Titrisation as purchaser, with Crédit Agricole Corporate and Investment Bank as the arranger and calculation agent and Eurotitrisation as the programme agent. The Haven Power MRTSA shall (unless terminated in accordance with its terms) continue in place until the earlier of July 2025 and the date on which all receivables sold pursuant to the Haven Power MRTSA have been paid in full.

Drax Group Holdings guarantees Haven Power's obligations under the Haven Power MRTSA.

(L) *Sale of gas assets*

On 15 December 2020, Drax Smart Generation Holdco Limited entered into an agreement with VPI Holding Limited and VPI Generation Limited for the sale of Drax Generation Enterprise Limited which holds four CCGT power stations (Damhead Creek (812MW, commissioned in 2001), Rye House (715MW, commissioned in 1993), Shoreham (420MW, commissioned in 2001)) and Blackburn Mill (60MW, commissioned in 2002) for £193.3 million, subject to customary adjustments This includes £29.0 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek. The transaction completed on 31 January 2021. On 1 February 2021, Drax received £188 million in sale proceeds, being £164 million of headline consideration plus £24 million of customary adjustments, which are subject to finalisation. The remaining £29.0 million of contingent consideration is outstanding, payment of which is subject to certain agreed criteria being satisfied in the future.

7.2 Pinnacle Group

The following contracts (not being contracts entered into in the ordinary course of business) have either: (i) been entered into by Pinnacle or another member of the Pinnacle Group within the period of two years immediately preceding the date of this Circular and are or may be material; or (ii) been entered into by Drax or another member of the Drax Group which contain any provisions under which any member of the Drax Group has any obligation or entitlement which is, or may be, material as at the date of this Circular:

(A) *Acquisition Agreement*

Details of the terms of the Acquisition Agreement are set out in Part III (*Principal Terms of the Acquisition*).

(B) *Pinnacle Credit Agreement*

Pinnacle, as borrower, entered into a credit agreement on 6 May 2011 between, among others, Pinnacle and the Bank of Nova Scotia as Administrative Agent, which was restated by an amended and restated credit agreement dated 3 October 2014, further restated by a second amended and restated credit agreement dated 15 December 2014, further restated by a third amended and restated credit agreement dated 13 December 2017 and further amended and restated by a fourth amended and restated credit agreement dated 14 June 2019. The Pinnacle Credit Agreement comprises a C$65,000,000 revolving credit facility under which up to C$7,500,000 has been designated as the swingline and letters of credit up to an aggregate face amount of C$7,500,000 can be issued (the "**Pinnacle Revolving Facility**"), a C$280,000,000 term loan (the "**Pinnacle Term Facility**"), and a C$185,000,000 delayed draw term loan (the "**Delayed Draw Term Facility**"). The Revolving Facility can be drawn in Canadian dollars or US dollars, other than drawing on letters of credit which can be in all major currencies offered by the Bank of Nova Scotia and swingline drawings which must be in US dollars. The Term Facility and the Delayed Draw Term Facility can be drawn in Canadian dollars or US dollars.

The Pinnacle Credit Agreement was amended on 26 June 2020 by an amending agreement (the "**Amending Agreement**"). The financial covenants were amended to increase covenant headroom until June 2021 and an extension of access to the Delayed Draw Term Facility was provided until 30 June 2021. The Amending Agreement also extended the maturity date from 13 December 2022 to 14 June 2024.

Borrowers and guarantors

The borrower under the agreement is Pinnacle and its permitted successors and assigns. The Pinnacle Credit Agreement is guaranteed by all current and future direct and indirect wholly-owned subsidiaries of Pinnacle.

Security

The obligations under the Pinnacle Credit Agreement are secured by: (i) a first-ranking security interest on all present and after-acquired assets of Pinnacle, (ii) a debenture or collateral mortgage creating a first ranking security interest in respect of any land having (a) a fair market value in excess of C$3,000,000 or (b) that is likely to be material to the operations of Pinnacle or a guarantor in which Pinnacle or a guarantor has a freehold interest, (iii) a pledge granted by Pinnacle in respect of all outstanding issued shares in Pinnacle and shareholder debt held by Pinnacle creating a first ranking security interest, (iv) a subordination agreement from Pinnacle with respect to the subordinated debt owing to it by Pinnacle, (v) a general security agreement, debenture or collateral mortgage from each guarantor (other than Pinnacle) granting a first ranking security interest in all of its present and after-acquired property, assets and undertakings, (vi) a pledge of all outstanding issued shares of each guarantor (other than Pinnacle), (vii) control agreements for Pinnacle's and each guarantor's deposit accounts with average cash balances in excess of C$50,000 (provided that the total average cash balances of any accounts not covered by a control agreement shall not exceed C$250,000) and (viii) a pledge of Pinnacle's or any guarantor's equity interest in any subsidiary of Pinnacle's, and if the subsidiary is not wholly-owned by Pinnacle, an acknowledgement of such pledge if required.

Purpose

Pinnacle Revolving Facility

Amounts borrowed under the Pinnacle Revolving Facility are made available to fund working capital needs, to finance capital expenditure, to fund permitted acquisitions and permitted new facilities and for general corporate purposes.

Pinnacle Term Facility

Amounts under the Pinnacle Term Facility were used to refinance existing debt, pay fees related to the Pinnacle Credit Agreement, and to finance capital expenditures, to fund permitted acquisitions and permitted new facilities and for general corporate purposes.

Delayed Draw Term Facility

Amounts under the Delayed Draw Term Facility were used to fund Pinnacle's share of the development and construction of certain projects and other permitted new facilities and permitted acquisitions.

Availability and maturity

The maturity date of each of the Pinnacle Revolving Facility, the Pinnacle Term Facility and the Delayed Draw Term Facility is 14 June 2024.

As at the Latest Practicable Date, Pinnacle had drawn C$44,500,000 under the Pinnacle Revolving Facility, C$274,400,000 under the Pinnacle Term Facility and C$102,200,000 under the Delayed Draw Term Facility.

Prepayment/cancellation

Subject to certain conditions, Pinnacle may voluntarily prepay its utilisations or permanently cancel all or part of the available commitments under the Pinnacle Term Facility and the Delayed Draw Term Facility.

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Pinnacle Revolving Facility, Pinnacle Term Facility and Delayed Draw Term Facility upon the occurrence of certain events such as breaching certain financial covenant thresholds and entering into certain debt or disposal transactions, illegality.

Interest

Interest is payable under each of the Pinnacle Revolving Facility, the Pinnacle Term Facility and the Delayed Draw Term Facility at rate linked to the applicable reference rate (including Canadian prime rates, base rates or LIBOR) plus the applicable margin. The Amending Agreement relaxed the margin rates.

Financial covenants

The Pinnacle Credit Agreement contains a financial covenant requiring Pinnacle's senior debt to adjusted EBIDA ratio to fall within specific levels for each quarterly period.

The Pinnacle Credit Agreement also contains a fixed charge coverage ratio which requires Pinnacle to maintain a fixed charge coverage ratio within specific levels for each quarterly period.

The covenant levels have been relaxed until 25 June 2021 pursuant to the Amending Agreement.

Restrictions, covenants and events of default

The Pinnacle Credit Agreement contains customary negative covenants, subject to certain agreed exceptions, including, but not limited to: (i) restrictions on disposals, (ii) restrictions on incurrence of certain indebtedness, (iii) restrictions on the creation of certain security, (iii) restrictions on certain distributions, (iv) changes to the fiscal year and (v) cessation of business.

The Pinnacle Credit Agreement requires Pinnacle, the guarantors and certain joint venture entities to observe certain customary positive covenants, subject to agreed exceptions, including but not limited to: (i) prompt payment, (ii) compliance with laws, (iii) payment of taxes, (iv) maintenance of records and (v) sanctions.

The Pinnacle Credit Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, misrepresentation, breach of covenants, breach of other obligations, cross default, insolvency, change of control, cessation of business, proceedings, effectiveness of loan documents, cessation of first ranking security interests and material adverse change. Although the Pinnacle Credit Agreement contains a change of control provision that will be triggered by the Acquisition, Drax has obtained a waiver in writing from lenders constituting a majority of commitments and therefore the Pinnacle Credit Agreement will continue in place immediately post Completion on the same terms as prior to Completion.

Governing law

The Pinnacle Credit Agreement is governed by and construed in accordance with the Province of Ontario.

8. Litigation

8.1 Drax

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is Drax aware of any such proceedings being pending or threatened by or against any member of the Drax Group) which may have, or during the last twelve months prior to the date of this Circular have had, a significant effect on the financial position or profitability of the Drax Group.

8.2 Pinnacle Group

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor are the Directors or the Company aware of any such proceedings being pending or threatened by or against any member of the Pinnacle Group) which may have, or during the last 12 months prior to the date of this Circular have had, a significant effect on the financial position or profitability of the Pinnacle Group.

9. Working capital

Drax is of the opinion that, taking into account the facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital available to it for its present requirements, that is, for at least the next 12 months from the date of publication of this Circular.

10. Consents

RBC has given, and has not withdrawn, its consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.

Deloitte LLP is registered to carry out audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales and has given, and not withdrawn, its written consent to the inclusion of its report on the unaudited pro forma financial information in Part V (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*), in the form and context in which it is included.

11. Significant change

11.1 Drax

Except as provided below, there has been no significant change in the financial position or financial performance of the Drax Group since 31 December 2020, being the date of the last financial period for which financial information has been published.

As disclosed in paragraph 7.1(L) of this Part VI (*Additional Information*), on 31 January 2021, the Drax Group completed the sale of four CCGT power stations to VPI Holding Limited and VPI Generation Limited.

11.2 Pinnacle Group

There has been no significant change in the financial position or financial performance of the Pinnacle Group since 25 December 2020, being the date to which the financial information on the Pinnacle Group, presented in Part IV (*Historical Financial Information relating to the Pinnacle Group*) and the Appendix, has been published.

12. Pinnacle Consensus Figures

In the Company's announcement of the Acquisition made on 8 February 2021 and Drax's 2020 Preliminary Results (the "**Announcements**"), Pinnacle's 2022 and 2023 Bloomberg consensus EBITDA of C$99 million and C$126 million, respectively (the "**Consensus Figures**"), were referred to. The Consensus Figures were a collation of forecasts, estimates and opinions made by a number of independent research analysts compiled by Bloomberg and appearing on Bloomberg's website at the time of the Announcements. The inclusion of the Consensus Figures in the Announcements may be interpreted as profit forecasts in relation to Pinnacle for the purposes of the Listing Rules.

The Directors consider that the Consensus Figures are no longer valid in the context of the Acquisition because:

(i) the Consensus Figures were representative of Pinnacle as a standalone entity and do not represent the Company's or the Directors' views of the expected financial performance of Pinnacle under the Company's ownership; and

(ii) the Acquisition will result in a number of changes impacting Pinnacle's EBITDA, including the impact of purchase price allocation and intra-group trading adjustments.

Given the strategic rationale for the Transaction set out in paragraph 2 of Part 1 (*Letter from the Chair of Drax Group plc*) and the reasons above, the Directors also consider that reassessment of the Consensus Figures for the purposes of the Listing Rules is not necessary to allow Shareholders to assess the Acquisition and to make a properly informed decision as to how to vote at the General Meeting.

13. Related party transactions

Details of related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) No 1606/2002), which Drax has entered into:

(A) during the financial year ended 31 December 2017 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 8.3 on page 171 of Drax's 2017 Annual Report and Accounts;

(B) during the financial year ended 31 December 2018 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 8.4 on page 177 of Drax's 2018 Annual Report and Accounts; and

(C) during the financial year ended 31 December 2019 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 8.4 on page 208 of Drax's 2019 Annual Report and Accounts.

In respect of the period from 1 January 2020 to the date of this Circular, Drax's only related party transactions were the payment of salary and benefits to its Directors and Executive Committee members.

14. Source of financial information

Unless otherwise stated:

(A) financial information relating to Drax has been extracted without material adjustment from Drax's 2020 Preliminary Results; and

(B) financial information relating to Pinnacle has been extracted without material adjustment from the audited financial statements of Pinnacle for the years ended 28 December 2018, 27 December 2019 and 25 December 2020.

Drax's 2020 Preliminary Results have been derived from the audited consolidated financial statements of the Drax Group for the year ended 31 December 2020 ("**Drax's 2020 Financial Statements**"). Drax's 2020 Preliminary Results have been prepared:

a. in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;

b. on a going concern basis and on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Drax Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively);

c. using the principal accounting policies adopted in the preparation of the financial statements set out in Drax's 2019 Annual Report and Accounts, except for new standards applicable from 1 January 2020. The application of these new standards has not had a material impact on the financial statements; and

d. on a basis which is both comparable with the Drax Group historical financial information and consistent with Drax's accounting policies.

Drax's 2020 Preliminary Results have not been audited. However, Drax's 2020 Financial Statements, from which Drax's 2020 Preliminary Results were derived, include a signed Independent Auditor's Report to the Members of Drax Group plc.

15. Information incorporated by reference

Information from the following documents has been incorporated into this Circular by reference:

Documents containing information incorporated by reference	Paragraph of this Circular which refers to the document containing information incorporated by reference	Where the information can be accessed by Shareholders
Drax's 2020 Preliminary Results	Part V and paragraph 14 of this Part VI	www.drax.com/investors/results-reports-agm
Drax's 2019 Annual Report and Accounts	Paragraphs 5 and 13 of this Part VI	www.drax.com/investors/results-reports-agm
Drax's 2018 Annual Report and Accounts	Paragraph 13 of this Part VI	www.drax.com/investors/results-reports-agm
Drax's 2017 Annual Report and Accounts	Paragraph 13 of this Part VI	www.drax.com/investors/results-reports-agm

A copy of each of the documents listed above is available for inspection in accordance with paragraph 16 below.

16. Documents available for inspection

Copies of the following documents will be available for inspection on Drax's website up to and including the date of the General Meeting:

(i) the articles of association of Drax;

(ii) Drax's 2017 Annual Report and Accounts;

(iii) Drax's 2018 Annual Report and Accounts;

(iv) Drax's 2019 Annual Report and Accounts;

(v) Drax's 2020 Preliminary Results;

(vi) the report of Deloitte set out in Part V (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*);

(vii) the Acquisition Agreement;

(viii) the consent letters of RBC and Deloitte referred to in paragraph 10 above;

(ix) this Circular; and

(x) the Drax announcement dated 8 February 2021 in relation to the Acquisition.

12 March 2021

PART VII
DEFINITIONS

The following terms have the following meanings in this Circular:

"**2018 Bridge Facility Agreement**"	means the £725 million acquisition bridge facility agreement originally dated 16 October 2018, as amended and restated pursuant to an amendment and restatement agreement on 21 December 2018 between, amongst others, Drax Corporate as borrower, Barclays Bank PLC, Bank of America Merrill Lynch International Limited and J.P. Morgan Chase Bank N.A. as lenders, Barclays Bank PLC as facility agent and guaranteed by the Guarantors;
"**2025 EUR Notes**"	means the €250 million aggregate principal amount of 2.625 per cent. senior secured notes due 2025 issued on 4 November 2020 by Drax Finco under the 2025 EUR Notes Indenture;
"**2025 EUR Notes Indenture**"	means the Drax Finco indenture dated as of 4 November 2020, as amended and restated from time to time;
"**2025 USD Notes**"	means the US$300 million aggregate principal amount of 6.625 per cent. senior secured notes due 2025 issued on 26 April 2018 by Drax Finco under the 2025 Notes USD Indenture;
"**2025 USD Notes Indenture**"	means the Drax Finco indenture dated as of 26 April 2018, as amended and restated from time to time;
"**Acquisition**"	means the proposed acquisition of all of the outstanding and issued Pinnacle Shares pursuant to the Acquisition Agreement;
"**Acquisition Agreement**"	means the arrangement agreement dated 7 February 2021, between Drax, Bidco and Pinnacle in relation to the Acquisition;
"**Adjusted EBITDA**"	means (i) in respect of Drax, earnings before interest, tax, depreciation and amortization, excluding the impact of exceptional items and certain remeasurements and (ii) in respect of Pinnacle, consolidated net income before depreciation and amortisation, finance expense and provision for income taxes, excluding non-cash stock compensation expense, asset impairments and disposals, and certain items of income or loss characterised as unrepresentative of ongoing operations;
"**Arrangement Resolution**"	means the special resolution approving the Plan of Arrangement to be considered at the Pinnacle Shareholder Meeting by Pinnacle Shareholders;
"**BECCS**"	means bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored;
"**Bidco**"	means Drax Canadian Holdings Inc.;
"**Board**"	means the board of Directors of Drax;
"**Circular**"	means this document;
"**CMA**"	means the Competition and Markets Authority;

"**Common Security**"	means the first ranking security interests granted over: (i) all of the issued share capital of Drax Group Holdings and certain receivables owed to Drax by Drax Group Holdings; (ii) all of the issued share capital of each Guarantor; (iii) substantially all of the assets of each Guarantor incorporated or organised under the laws of England and Wales; and (iv) substantially all of the assets of each Guarantor organised in or under the laws of the United States (or any state or territory thereof or the District of Columbia) other than any real property located in the United States;
"**Companies Acts**"	has the meaning given in section 2 of the Companies Act 2006;
"**Company**" or "**Drax**"	means Drax Group plc, a public limited company incorporated in England and Wales with registered number 5562053 and with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH;
"**Completion**"	means the completion of the Acquisition pursuant to the Acquisition Agreement;
"**Court**"	means the Supreme Court of British Columbia or other competent court, as applicable;
"**CREST**"	means the system of paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations 2001 (SI 2001/3755);
"**CREST Manual**"	means the manual, as amended from time to time, produced by CRESTCo describing the CREST system and supplied by CRESTCo Limited to users and participants thereof;
"**CREST Proxy Instruction**"	means the instruction whereby CREST members send a CREST message appointing a proxy for the meeting and instructing the proxy on how to vote;
"**Directors**"	means the directors of Drax;
"Disclosure and Transparency Rules" or **"DTRs"**	means the Disclosure Guidance and Transparency Rules made by the FCA pursuant to Part VI of FSMA;
"**Dissent Rights**"	means the rights of dissent in respect of the Acquisition Agreement described in the Plan of Arrangement;
"**Drax**"	means Drax Group plc, a public limited company incorporated in England and Wales with registered number 5562053 and with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH;
"**Drax Acquisition Proposal**"	means any offer, proposal or inquiry from any person or group of persons other than Pinnacle, or its affiliates, to acquire 20 per cent. or more of the issued and outstanding Ordinary Shares or assets of the Drax Group, subject to certain exceptions set out in the Acquisition Agreement;

"**Drax Change in Recommendation**"	means where the Board or any committee thereof (i) fails to recommend or withdraws, amends, modifies or qualifies, or states an intention to withdraw, amend, modify or qualify, in a manner adverse to Pinnacle its recommendation that Shareholders vote in favour of the Resolution, (ii) accepts, approves, endorses or recommends, or publicly proposes to accept, approve, endorse or recommend, a Drax Acquisition Proposal or takes no position or a neutral position with respect to a Drax Acquisition Proposal for more than five business days after the public announcement of such Drax Acquisition Proposal (or beyond the third business day prior to the date of the General Meeting if sooner), (iii) accepts or enters into or publicly proposes to accept or enter into (other than a confidentiality agreement permitted by and in accordance with the terms of the Acquisition Agreement) any agreement, understanding or arrangement in respect of a Drax Acquisition Proposal, or (iv) fails to publicly reaffirm (without qualification) its recommendation that Shareholders vote in favour of the Resolution within five business days after having been requested in writing to do so by Pinnacle (or in the event the General Meeting is scheduled to occur within such five business day period, prior to the third business day prior to the General Meeting);
"**Drax Corporate**"	means Drax Corporate Limited, a private limited company incorporated in England and Wales with registered number 05562058 and with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH;
"Drax Finco"	means Drax Finco plc, a public limited company incorporated in England and Wales with registered number 10664639 and with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH;
"**Drax Group**"	means Drax and its subsidiary undertakings from time to time;
"**Drax Group Holdings**"	means Drax Group Holdings Limited, a private limited company incorporated in England and Wales with registered number 09887429 and with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH;
"**Drax Intervening Event**"	means any event, development, circumstance, change, effect, condition or occurrence that, as of the date of the Acquisition Agreement, was not known to the Board;
"**Drax Power**"	means Drax Power Limited, a private limited company incorporated in England and Wales with registered number 04883589 and with its registered office at Drax Power Station, Selby, North Yorkshire YO8 8PH;
"**Drax Power Station**"	means Drax's biomass and coal-fired power station in North Yorkshire, England;
"Drax's 2017 Annual Report and Accounts"	means the annual report and accounts prepared by Drax for the financial year ended 31 December 2017;

"Drax's 2018 Annual Report and Accounts"	means the annual report and accounts prepared by Drax for the financial year ended 31 December 2018;
"Drax's 2019 Annual Report and Accounts"	means the annual report and accounts prepared by Drax for the financial year ended 31 December 2019;
"**Drax's 2020 Preliminary Results**"	Drax's published preliminary results for the year ended 31 December 2020 published on 25 February 2021;
"**Drax Shareholder Approval**"	means the approval of the Resolution by Shareholders representing a simple majority of the votes cast (in person or by proxy) at the General Meeting;
"**Drax Superior Proposal**"	means an unsolicited bona fide written Drax Acquisition Proposal to acquire not less than 50 per cent. of the outstanding Ordinary Shares or all or substantially all of the assets of the Drax Group made by an arm's length third party after the date of the Acquisition Agreement and which the Board determines in good faith, after consultation with its external advisers, would, if consummated in accordance with its terms, result in a transaction that is more favourable, from a financial point of view, to the Shareholders than the Acquisition and is reasonably capable of being consummated in accordance with the terms proposed;
"**EBITDA**"	means (i) in respect of Drax, earnings before interest, tax, depreciation, amortisation and material or one-off items that do not reflect the underlying trading performance of the business and (ii) in respect of Pinnacle, consolidated net income before depreciation and amortisation, finance expense and provision for income taxes;
"**Effective Date**"	means the date on which the Acquisition becomes effective in accordance with the terms of the Acquisition Agreement;
"**Effective Time**"	means the time on the Effective Date that the Acquisition becomes effective, as set out in the Plan of Arrangement;
"**Enlarged Group**"	means the Drax Group including the Pinnacle Group after the Acquisition;
"**EU**"	means the European Union;
"**FCA**"	means the Financial Conduct Authority of the United Kingdom;
"**Final Order**"	means the final order of the Court in a form acceptable to Drax and Pinnacle, each acting reasonably, approving the Acquisition, as such order may be amended, modified, supplemented or varied by the Court (with the consent of both Drax and Pinnacle, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is acceptable to both Drax and Pinnacle, each acting reasonably) on appeal;

"**Form of Direction**"	means the form of direction accompanying this Circular (for Share Incentive Plan participants who have not elected to receive shareholder communications in electronic form) for use by Share Incentive Plan participants in connection with the General Meeting;
"**Form of Proxy**"	means the form of proxy accompanying this Circular (for those Shareholders who have not elected to receive shareholder communications in electronic form) for use by Shareholders in connection with the General Meeting;
"**FSMA**"	means the Financial Services and Markets Act 2000, as amended;
"**General Meeting**"	means the general meeting of Drax convened by the notice that is set out at the end of this Circular to be held at 4:30pm on 31 March 2021 at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK or any reconvened meeting following any adjournment thereof;
"**Guarantors**"	means Drax Group Holdings and certain subsidiaries of Drax Group Holdings;
"**IFRS**"	means the International Financial Reporting Standards;
"**Index-Linked Term Facility**"	means the £35 million term loan available pursuant to the Index-Linked Term Facility Agreement;
"**Index-Linked Term Facility Agreement**"	means the £35 million term loan facility agreement, restructured from the Senior Facilities Agreement into a new separate agreement dated 18 November 2020 between, amongst others, Drax Corporate as borrower, Drax Group Holdings as parent guarantor and M&G Inflation Opportunities Fund, a sub-fund of Specialist Investment Funds, as lender;
"**Intercreditor Agreement**"	means the intercreditor agreement dated 5 May 2017 between, among others, Drax Corporate, Drax Finco, certain other subsidiaries of Drax Group Holdings and certain creditors of the Restricted Group;
"**Interim Order**"	means the interim order of the Court, in a form acceptable to Pinnacle and Drax, each acting reasonably, providing for, among other things, the calling and holding of the Pinnacle Shareholder Meeting, as the same may be amended, modified, supplemented or varied by the Court (with the consent of Pinnacle and Drax, each acting reasonably);
"**Investment Contract**"	means an investment contract relating to Unit 1 with the Secretary of State for Energy and Climate Change;
"**Latest Practicable Date**"	means 11 March 2021, being the latest practicable date for the calculation and inclusion of information prior to the publication of this Circular;

"**LIBOR**"	means the London Interbank Offered Rate;
"**Listing Rules**"	means the Listing Rules made by the FCA pursuant to FSMA governing, inter alia, admission of securities to the Official List of the FCA;
"**London Stock Exchange**"	means the London Stock Exchange plc or any recognised investment exchange for the purposes of FSMA that may take over the functions of the London Stock Exchange plc;
"**Long Stop Date**"	means 7 September 2021, or such later date as may be agreed in writing by Drax, Bidco and Pinnacle;
"**Notice**"	means the notice of General Meeting at Part VIII (*Notice of General Meeting*);
"**Offer Price**"	means C$11.30 per Pinnacle Share;
"**Ordinary Shares**"	means ordinary shares of $11^{16}/_{29}$ pence each in the capital of the Company;
"**Pinnacle**"	means Pinnacle Renewable Energy Inc.;
"**Pinnacle Acquisition Proposal**"	means, other than the transactions contemplated by the Acquisition Agreement and other than any transaction involving only Pinnacle and/or one of its wholly-owned subsidiaries, any offer, proposal or inquiry from any person or group of persons (other than Drax, or its affiliates), whether or not in writing and whether or not delivered to the Pinnacle Shareholder, relating to the matters set out in the Acquisition Agreement, including to acquire 20 per cent. or more of the issued and outstanding Pinnacle Shares or assets of the Pinnacle Group, subject to certain exceptions set out in the Acquisition Agreement;
"**Pinnacle Board**"	means the board of directors of Pinnacle;
"**Pinnacle Change in Recommendation**"	means where the Pinnacle Board or any committee thereof (i) fails to recommend or withdraws, amends, modifies or qualifies, or states an intention to withdraw, amend, modify or qualify, in a manner adverse to Drax its recommendation that Pinnacle Shareholders vote in favour of the Arrangement Resolution or (ii) accepts, approves, endorses or recommends, or publicly proposes to accept, approve, endorse or recommend, a Pinnacle Acquisition Proposal or takes no position or a neutral position with respect to a Pinnacle Acquisition Proposal for more than five business days after the public announcement of such Pinnacle Acquisition Proposal (or beyond the third business day prior to the date of the Pinnacle Shareholder Meeting if sooner), (iii) accepts or enters into or publicly proposes to accept or enter into (other than a confidentiality agreement permitted by and in accordance with the terms of the Acquisition Agreement) any agreement, understanding or arrangement in respect of a

Pinnacle Acquisition Proposal, or (iv) fails to publicly reaffirm (without qualification) its recommendation that Pinnacle Shareholders vote in favour of the Arrangement Resolution within five business days after having been requested in writing to do so by Drax (or in the event the Pinnacle Shareholder Meeting is scheduled to occur within such five business day period, prior to the third business day prior to the Pinnacle Shareholder Meeting);

"**Pinnacle Credit Agreement**"	means the credit agreement dated 14 June 2019 between, among others, Pinnacle and the Bank of Nova Scotia as Administrative Agent, as most recently amended and restated pursuant to an amendment and restatement agreement dated 14 June 2019 and amended pursuant to an amending agreement dated 26 June 2020;
"**Pinnacle Directors**"	means the directors of Pinnacle;
"**Pinnacle Group**"	means Pinnacle and its subsidiary undertakings from time to time, which shall be deemed to include any joint venture in which Pinnacle directly or indirectly holds an interest;
"**Pinnacle Intervening Event**"	means any event, development, circumstance, change, effect condition or occurrence with respect to the Pinnacle Group or the Drax Group that, as of the date of the Acquisition Agreement, was not known to the Pinnacle Board;
"**Pinnacle Material Adverse Event**"	means any event, change, occurrence, effect, state of facts or circumstances that, individually or in the aggregate is, or would reasonably be expected to be, material and adverse to the business, assets, properties, operations, financial condition or results of operations of Pinnacle Group, subject to certain exceptions set out in the Acquisition Agreement including, *inter alia*, any change, event, occurrence, effect, state of facts or circumstances resulting from or arising in connection with: (i) any change or development generally affecting the industrial wood pellet industry or the supply of wood fibre to the industrial wood pellet industry, (ii) any change, development or condition in global, national or regional political conditions or any earthquake, flood, forest fire or other natural disaster, (iii) any epidemic, pandemic or outbreak of illness (including the COVID-19 pandemic), (iv) any change or development in general economic conditions, (v) changes in law, regulation or accounting standards, (vi) changes in or relating to currency exchange, interest or inflation rates, (vii) changes in Pinnacle's share price or the trading volume of Pinnacle Shares and (viii) the failure of Pinnacle to meet any internal, published or public projections or forecasts;
"**Pinnacle Shareholder Approval**"	means the approval of the Arrangement Resolution by Pinnacle Shareholders at the Pinnacle Shareholder Meeting representing not less than two-thirds of the

	votes cast on such resolution by Pinnacle Shareholders present in person or represented by proxy;
"**Pinnacle Shareholder Meeting**"	means the special meeting of Pinnacle Shareholders, including any adjournment or postponement thereof, to be called and held in accordance with the Interim Order to consider the Arrangement Resolution;
"**Pinnacle Shareholders**"	means the registered and/or beneficial holders of Pinnacle Shares as at 16 February 2021;
"**Pinnacle Shares**"	means the common shares in the authorised share capital of Pinnacle;
"**Pinnacle Superior Proposal**"	means an unsolicited bona fide written Pinnacle Acquisition Proposal to acquire not less than 100 per cent. of the outstanding Pinnacle Shares or all or substantially all of the assets of the Pinnacle Group made by an arm's length third party after the date of the Acquisition Agreement subject to certain conditions set out in the Acquisition Agreement and which the Pinnacle Board determines in good faith, after consultation with its external advisers, would, if consummated in accordance with its terms, result in a transaction that is more favourable, from a financial point of view, to the Pinnacle Shareholders than the Acquisition;
"**Plan of Arrangement**"	means the plan of arrangement of Pinnacle setting out the terms and conditions of the Acquisition, and any amendments or variations thereto made in accordance with the Acquisition Agreement and the Plan of Arrangement or upon the direction of the Court (with the prior written consent of Pinnacle and Drax, each acting reasonably) in the Final Order;
"**Private Placement Agreement**"	means the £375 million private placement agreement dated 24 July 2019 entered into between, amongst others, Drax Corporate as borrower, Drax Group Holdings as parent guarantor and Banco Santander S.A., London Branch, as facility agent;
"**Private Placement Facilities**"	means the £375 million term loan available in four tranches pursuant to the Private Placement Agreement;
"**PR Regulation**"	the UK version of Regulation number 2019/980 of the European Commission, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018;
"**Registrars**"	means Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA;
"**Resolution**"	means the ordinary resolution as set out in the Notice of General Meeting at the end of this Circular;
"**Restricted Group**"	means Drax Group Holdings and its subsidiaries from time to time (save for any such subsidiaries which are designated as unrestricted subsidiaries from time to time in accordance with the terms of the Senior

	Facilities Agreement, the 2025 USD Notes Indenture, the 2025 EUR Notes Indenture, the Private Placement Agreement and the Index-Linked Term Facility Agreement);
"**Revolving Facility**"	means the £315 million committed multicurrency working capital and ancillary facility, including, without limitation, a letter of credit facility provided under the Senior Facilities Agreement;
"**SEDAR**"	means the Canadian System for Electronic Document Analysis and Retrieval;
"**Senior Facilities Agreement**"	means the revolving credit facility agreement dated 20 December 2012 between, among others, Drax Power as borrower, Barclays Bank PLC as facility agent and Drax Corporate, as amended and restated pursuant to an amendment and restatement agreement on 21 April 2017, with effect from 5 May 2017 and further amended and restated pursuant to an amendment and restatement agreement dated 18 November 2020;
"**Share Incentive Plan**"	means the Drax Group Approved Share Incentive Plan;
"**Shareholders**"	means holders of Ordinary Shares;
"**subsidiary**" and "**subsidiary undertaking**"	have the meanings given to them in sections 1159 and 1162 (respectively) of the Companies Act 2006;
"**Term Facilities Agreement**"	means the term facilities agreement dated 18 August 2020 between, among others, Drax Corporate, Banco Santander S.A., London Branch as facility agent and Drax Group Holdings as parent guarantor;
"**Unaudited Pro Forma Financial Information**"	means the unaudited pro forma net assets statement of the Enlarged Group set out in Part A of Part V; and
"**Unit 1**"	means Drax Power's third coal-to-biomass conversion unit.

PART VIII
NOTICE OF GENERAL MEETING

Drax Group plc

(Registered in England and Wales with registered number 5562053)

NOTICE IS HEREBY GIVEN that a General Meeting of Drax Group plc (the "**Company**") will be held at 4:30pm on 31 March 2021 at Opus Energy House, 8-10 The Lakes, Northampton NN4 7YD, UK to consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

Ordinary Resolution

THAT the proposed acquisition of the entire issued share capital of Pinnacle Renewable Energy Inc. (the "**Transaction**") on the terms and subject to the conditions of an Acquisition Agreement dated 7 February 2021 between (1) the Company, (2) Drax Canadian Holdings Inc. and (3) Pinnacle Renewable Energy Inc. and summarised in the circular dated 12 March 2021 relating to the Transaction be and is hereby approved, and any and all of the directors of the Company be and are hereby authorised to: (i) do all such acts and things and execute all such agreements and make such arrangements as they may consider to be necessary, desirable or appropriate to complete, implement and to give effect to, or otherwise in connection with, the Transaction and any matters incidental to the Transaction; and (ii) waive, amend, vary, revise or extend any of the terms and conditions of such agreements, provided that any such waivers, amendments, revisions or extensions are not of a material nature.

By order of the Board

Brett Gladden
Group Company Secretary
Drax Group plc

12 March 2021

Notes:

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Companies Act 2006 ("**CA 2006**"), the Company specifies that only those shareholders registered on the register of members of the Company ("**Register**") at 6.30pm on the day two business days before the date of the meeting (the "**Specified Time**") (or if the meeting is adjourned to a time more than 48 hours after the Specified Time, by 6.30pm on the day which is two business days prior to the time of the adjourned meeting) shall be entitled to vote in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purposes of determining the entitlement of members to vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the Register after the relevant deadline shall be disregarded in determining rights to vote.

2. If you have sold or transferred all your shares, this Circular and any accompanying documents (but not the personalised Form of Proxy or Form of Direction) should be passed to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.

3. **However, in light of current COVID-19 restrictions and current prohibitions on public gatherings, attendance at the General Meeting shall be restricted.**

4. The Company will be accepting Shareholders' questions for the General Meeting via the facility on the Company's website at www.drax.com/investors/disclaimer-proposed-acquisition-of-pinnacle-renewable-energy-inc-by-drax. The deadline for submitting questions is 5:00pm on 19 March 2021. The Company will look to post answers to questions received on the Company's website. The Company reserves the right to summarise and/or aggregate questions of a similar nature and responses given will be in relation to the business of the General Meeting only and the Company is not required to provide an answer in the following circumstances:

   - if to do so would interfere unduly with the preparation of the General Meeting or would involve a disclosure of confidential information;
   - if the answer has already been given on a website in the form of an answer to a question; or
   - if it is undesirable in the interests of the Company that the question be answered.

5. Given the restrictions on attending the General Meeting in person, the Directors strongly encourage you to vote electronically or to vote by proxy. You can cast your vote online at www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed on your Form of Proxy). Alternatively, if you have already registered with the Company's Registrar's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk using your usual user ID and password. You can also cast your vote by post using the enclosed proxy card. Further details regarding proxy voting can be found below.

6. Furthermore, please note that if any legislation is introduced in response to the spread of COVID-19, the Company reserves the right to act upon legislative changes which may be relevant for the purpose of the General Meeting. To the extent the Company does act upon any such legislative changes, it will notify shareholders and the market by describing any arrangements on its Company's website and/or via an RNS announcement.

7. Shareholders are entitled to vote at the General Meeting and may appoint the Chair of the General Meeting as their proxy to exercise all or any of their rights to vote on their behalf at the General Meeting. A Shareholder may not appoint more than one proxy at the General Meeting; only the Chair of the General Meeting can be appointed as proxy. Details of how to appoint the Chair as your proxy using the Form of Proxy are set out in the notes to the Form of Proxy.

8. You can only appoint a proxy using the procedures set out in these notes and the notes on the Form of Proxy. A Form of Proxy is enclosed. To be effective, the Form of Proxy must be completed and signed and, together with the power of attorney or authority, if any, under which it is signed (or a duly certified copy of any such power or authority), must be lodged with the Company's Registrars not later than 48 hours, excluding non-business days, before the time of the meeting or must be lodged using the CREST proxy voting services (see note 10 below).

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Register in respect of the joint holding (the first-named being deemed the most senior).

10. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof utilising the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual.

The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent, Equiniti Limited (CREST participant ID RA19) by the latest time(s) for receipt of proxy appointments specified in note 8 above. For this purpose the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.

In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings available at www.euroclear.com.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

11. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the Resolution. If you either select the "discretionary" option or if no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

12. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in notes 7 to 11. Please read note 17 below.

13. Alternatively, members may register the appointment of a proxy for the meeting electronically by accessing the website www.sharevote.co.uk where full details of the procedure are given. This website is operated by the Company's Registrars.

    The proxy appointment and any power of attorney or other authority under which the proxy appointment is made must be received by the Company's Registrars not less than 48 hours, excluding non-business days, before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. Please note that any electronic communication sent to the Company or to the Company's Registrars that is found to contain a computer virus will not be accepted. The use of the internet service in connection with the General Meeting is governed by the Company's Registrars' conditions of use set out on the Sharevote website, www.sharevote.co.uk, and may be read by logging on to that site.

14. A copy of this Notice and other information required by section 311A of the CA 2006 can be found on the Company's website www.drax.com.

15. To change your proxy instructions, simply submit a new proxy appointment. You will need to request a new Form of Proxy from the Company's Registrars, Equiniti Limited, by contacting them at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by using their telephone helpline service on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday – excluding Bank Holidays; or +44 121 415 7047 from outside the UK. Note that the cut-off time for receipt of Forms of Proxy (see note 8 above) also applies in relation to amended instructions.

16. If you submit more than one valid proxy appointment in respect of a single share, the appointment received last before the latest time for the receipt of proxies will take precedence.

17. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the CA 2006 (a "**Nominated Person**") should note that the provisions in this Notice concerning the appointment of a proxy or proxies to attend the meeting in place of a member do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right, or does not wish to exercise it, he or she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting. If you are a person who has been nominated under section 146 of CA 2006 to enjoy information rights:

    - you may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (a "**Relevant Member**") to be appointed or to have someone else appointed as a proxy for the meeting; and

    - if you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights. Nominated Persons should also remember that their main point of contact in terms of their investment in the

Company remains the member who nominated the Nominated Person to enjoy information rights (or the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

18. Voting on the Resolution to be put to the General Meeting will be by poll, rather than a show of hands, so that all shares voted are included. The board of directors of the Company believes this to be the most democratic procedure for voting on resolutions as member votes will be counted according to the number of shares held.

    The results of the voting at the meeting and the number of proxy votes cast for and against and the number of votes actively abstained in respect of the Resolution proposed at the meeting will be announced to the London Stock Exchange as soon as practicable following the meeting and also will be published on the Company's website, www.drax.com.

19. As at 11 March 2021, being the latest practicable date prior to the publication of this Notice, the Company's issued share capital comprised 411,725,609 ordinary shares of $11^{16}/_{29}$ pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and the Company held 13,841,295 shares in treasury as at 11 March 2021. Therefore, the total number of voting rights in the Company as at 11 March 2021 was 397,884,314.

20. This Notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 11 March 2021, being the latest practicable date prior to the publication of this Notice and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice, will be available on the Company's website, www.drax.com.

21. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that it does not do so in relation to the same shares.

22. Any electronic address provided either in this Notice or in any related documents (including the Form of Proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

23. If you have any queries about voting or about your shareholding, you can contact Equiniti Limited, who maintain the Register, as follows:

    - by using their telephone helpline service:

        - from within the UK, on 0371 384 2030; or

        - from outside the UK, on +44 121 415 7047; or

    - by writing to them at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

    The helpline for Share Incentive Plan participants is: UK 0371 384 2040, overseas +44 121 415 7161.

    The telephone helpline service will be available between 8.30am and 5.30pm, Monday to Friday – excluding Bank Holidays.

    The telephone helpline service will not be able to provide legal, financial or personal taxation advice. Calls may be recorded and randomly monitored for security and training purposes.

APPENDIX

HISTORICAL FINANCIAL INFORMATION RELATING TO THE PINNACLE GROUP

SECTION 1

HISTORICAL FINANCIAL INFORMATION RELATING TO THE PINNACLE GROUP FOR THE FINANCIAL YEAR ENDED 25 DECEMBER 2020

INDEPENDENT AUDITORS REPORT 2020 OF PINNACLE

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.

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

Consolidated Statements of Financial Position

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

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin	*s/Rex McLennan*
Director, Gregory Baylin	Director, Rex McLennan

Consolidated Statements of Income/(Loss)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income/(Loss)

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)

(expressed in thousands of Canadian Dollars unless otherwise stated)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Equity

	Number of Common Share (#)	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**

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

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

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 25, 2020 and December 27, 2019

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.

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.

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 cooperation 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.

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.

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.

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).

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.

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.

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.

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).

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.

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.

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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**

(expressed in thousands of Canadian Dollars unless otherwise stated)

	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**

(expressed in thousands of Canadian Dollars unless otherwise stated)

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).

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**

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

	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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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**

(expressed in thousands of Canadian Dollars unless otherwise stated)

	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

(expressed in thousands of Canadian Dollars unless otherwise stated)

	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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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**

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

12. Non-controlling interests

The following table summarizes the non-controlling financial information relating to non-controlling interest before intercompany 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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

Alabama Pellet LLC	**30%**	30%
As at	**December 25, 2020**	December 27, 2019
Current assets	17,588	34,627
Non-current assets	142,703	66,179
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)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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).

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

	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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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)

(expressed in thousands of Canadian Dollars unless otherwise stated)

	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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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)

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

19.2 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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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%).

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

SECTION 2

HISTORICAL FINANCIAL INFORMATION RELATING TO THE PINNACLE GROUP FOR THE FINANCIAL YEAR ENDED 27 DECEMBER 2019

INDEPENDENT AUDITORS REPORT 2019 OF PINNACLE

To the Shareholders of Pinnacle Renewable Energy Inc.

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
March 2, 2020

Consolidated Statements of Financial Position

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

(expressed in thousands of Canadian Dollars unless otherwise stated) Contingencies (note 24)
See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin	*s/Rex McLennan*
Director, Gregory Baylin	Director, Rex McLennan

Consolidated Statements of Income/(Loss)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income/(Loss)

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

Consolidated Statements of Changes in Equity

	Number of Common Shares (#)	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures – Equity Component	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 29, 2017	**57,600,000**	**-**	**29,500**	**28,005**	**4,332**	**35,213**	**-**	**(75,419)**	**13,573**	**35,204**
Net profit (loss) for the period	-	-	-	-	-	-	-	1,864	821	2,685
Share exchange at Initial Public Offering ("IPO")	(47,424,946)	57,505	(29,500)	(28,005)	-	-	-	-	-	-
Exchange of liability-classified shares at IPO	1,995,357	22,448	-	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at IPO	432,853	1,597	-	-	(1,597)	-	-	-	-	-
Conversion of debentures at IPO	14,076,068	125,269	-	-	-	(35,213)	-	-	-	90,056
Share issuance at IPO	6,223,889	70,019	-	-	-	-	-	-	-	70,019
Share issuance costs	-	(3,987)	-	-	-	-	-	-	-	(3.987)
Stock options exercised during the period	100,492	1,115	-	-	(464)	-	-	-	-	651
Stock-based compensation	-	-	-	-	1,285	-	-	-	-	1.285
Dividends declared during the period	-	-	-	-	-	-	-	(12,868)	-	(12,868)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,075)	(1,075)
Investment by non-controlling interest	-	-	-	-	-	-	-	-	26,380	26,380
Balance, December 28, 2018	**33,003,713**	**273,966**	**-**	**-**	**3,556**	**-**	**-**	**(86,423)**	**39,699**	**230,798**
Net profit (loss) for the period	-	-	-	-	-	-	-	(10,807)	833	(9,974)
Stock options exercised during the period (note 12)	51,094	567	-	-	(235)	-	-	-	-	332
RSUs settled during the period (note 12)	263,545	3,086	-	-	-	-	-	-	-	3,086
Stock-based compensation (note 12)	-	-	-	-	824	-	-	-	-	824
Dividends declared during the period (note 12)	-	-	-	-	-	--	-	(19,938)	-	(19,938)
Reversal of excess dividend accrual	-	-	-	-	-	-		(23)	-	(23)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	-	(1,320)	-	380	(940)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,100)	(1,100)
Investment from non-controlling interests	-	-	-	-	-	-	-	-	5,652	5,652
Balance, December 27, 2019	**33,318,352**	**277,619**	**-**	**-**	**4,145**	**-**	**(1,320)**	**(117,191)**	**45,464**	**208,717**

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

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

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 27, 2019 and December 28, 2018

1. Reporting entity

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

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

Seasonality of Operations

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

2. Basis of preparation

a) Statement of compliance and basis of measurement

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

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

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

Accounting standards adopted in 2019

IFRS 16 Leases

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

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

Significant accounting policy

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

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

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

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

As a lessee

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

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

Transition

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

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

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

- IFRS 16 was only applied to contracts previously identified as leases. Contracts not identified as leases under IAS 17 and IFRIC 4 *Determining Whether an Arrangement contains a Lease* were not reassessed at the adoption date.

- ROU assets and lease liabilities were not recognized for leases with less than 12 months of remaining lease term, nor for low value leases for items. Associated lease payments were recognized as an expense on a straight-line basis over the lease term.

- Initial direct costs were excluded from the measurement of the ROU asset at the date of initial application.

- Hindsight was used when determining the lease term if the contract contained options to extend or terminate the lease.

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

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

The impact is as noted below:

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

b) Basis of consolidation

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

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

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

c) Functional currency

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

d) Use of estimates and judgments

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

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

Judgments

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

Note 7 - Goodwill: determination of appropriate cash generating units

Assumptions about estimation uncertainties

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

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

e) Accounting standards issued but not yet effective

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

3. Significant accounting policies

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

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

a) Subsidiaries

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

b) Non-controlling interests

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

c) Investment in associates (equity accounted investees)

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

d) Transactions eliminated on consolidation

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

e) Foreign currency translation

Foreign currency transactions:

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

Foreign operations:

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

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

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

Hedge of net investment in a foreign operation:

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

f) Cash and cash equivalents

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

g) Inventory

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

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

h) Property, plant and equipment

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

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

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

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

i) Leases

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

Effective December 29, 2018

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

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

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the lesser of the end of the lease term or useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable or the Company's incremental borrowing rate. The lease payments include fixed and variable payments, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

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

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

Prior to December 29, 2018

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

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

j) Goodwill

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

k) Intangible assets

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

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

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

l) Impairment of non-financial assets

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

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

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

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

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

m) Income taxes

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

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

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

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

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

n) Provisions

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

o) Decommissioning liabilities

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

p) Revenue recognition

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

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

Finished wood pellets

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

Port services

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

q) Financial instruments

Non-derivative financial instruments

Financial assets:

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

Financial assets at FVTPL: 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.

Financial liabilities:

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

Impairment of financial assets at amortized cost:

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

Offsetting financial assets and liabilities:

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

Derivative financial instruments

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

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

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

Compound financial instruments

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

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

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

r) Finance costs

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

s) Business combinations

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

t) Share capital

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

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

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

u) Stock-based compensation

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

v) *Earnings per share*

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

4. Accounts Receivable

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

5. Inventory

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

Right-of-use Assets

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

7. Goodwill and intangible assets

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

9. Long-term debt

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

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

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

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

10. New Market Tax Credit Debt

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

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

Pursuant to an indemnity agreement entered into as part of the Company's acquisition of interest in the Aliceville Facility, Westervelt has guaranteed WPI LLC's NMTC debt by providing a capital contribution to PWRH LLC of an equal and offsetting amount to the NMTC debt and associated interest payments accrued at the time of the

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

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

11. Other long-term liabilities

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

Plants

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

Port facility

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

Rail cars

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

12. Shareholders' equity

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

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

- Unlimited preferred participating, voting shares, without par value.

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

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

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

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

Stock-based compensation

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

a) Legacy Plan

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

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

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

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

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

i. Options

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

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

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

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

ii. Restricted share units

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

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

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

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

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

13. Non-controlling Interests

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

PWRH LLC	30%	30%
As at:	**December 27, 2019**	December 28, 2018
Current assets	**34,627**	22,849
Non-current assets	**66,719**	142,458
Current liabilities	**(16,813)**	(8,454)
Non-current liabilities	**(47)**	(84,877)
Net assets	**84,486**	71,976
Net assets attributable to NCI	**25,346**	21,593
Unrealized gain (loss) on foreign exchange	**347**	(959)
Net assets attributable to NCI	**25,693**	20,634
Net assets attributable to NCI (USD)	**19,346**	15,866
Total net assets attributable to NCI	**45,464**	39,699

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

PWRH LLC	December 27, 2019	December 28, 2018
Revenue	**45,316**	13,251
Net profit	**3,236**	389
Net profit allocated to NCI	**971**	117
Net profit allocated to NCI (USD)	**894**	108
Total net profit (loss) allocated to NCI	**833**	821

(expressed in thousands of Canadian Dollars unless otherwise stated)

14. Selling, general and administrative costs

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

15. Finance costs

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

16. Income taxes

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

	December 27, 2019	December 28, 2018
Deferred tax assets:		
Non-capital losses	**50,412**	23,858
Provisions	**10,224**	1,156
Transaction costs	**1,938**	2,118
Other	**1,604**	1,264
	64,178	28,396

(expressed in thousands of Canadian Dollars unless otherwise stated)

Deferred tax liabilities:		
Property, plant and equipment	**(59,115)**	(24,490)
Intangible assets	**(556)**	(1,512)
Deferred financing costs	**(860)**	(693)
Other	**(1,199)**	(1,552)
	(61,730)	(28,247)
Net deferred tax assets/(liability)	**2,448**	149

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

17. Earnings per share

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

18. Supplemental cash flow information

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

19. Acquisitions

Aliceville Facility

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

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

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

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

The below purchase price allocation for the transaction is final:

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

Joint operation

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

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

20. Related parties

Significant shareholder

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

Key management personnel compensation

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

HPLP

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

LPLP

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

SPLP

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

	December 27, 2019	December 28, 2018
Purchases	**17,902**	-
Revenue	**46**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at:	**December 27, 2019**	December 28, 2018
Amounts receivable	**254**	624
Amounts payable	**2,409**	740

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

WPI LLC

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

NPLP

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

21. Financial instruments

21.1 Classification and measurement:

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

21.2 Fair value

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

- Level 1 - quoted process (unadjusted) in active markets for identical assets and liabilities

- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

Specific valuation techniques used to value financial instruments include:

- For interest rate swaps – the present value of the estimated future cash flows based on observable yield curves

- For foreign currency forwards – present value of future cash flows based on the forward exchange rates at the balance sheet date

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

22. Financial Risk and Capital Management

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

Credit risk

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

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

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

Liquidity risk

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

Market risk

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

Foreign currency

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

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

Interest rate

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

Capital management

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

23. Commitments

Customer and supplier commitments

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

Capital commitments

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

Leased assets not yet in service

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

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

24. Contingencies

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

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

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

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

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

25. Revenue from contracts with customers

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

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

(expressed in thousands of Canadian Dollars unless otherwise stated)

26. Economic dependence

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

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

SECTION 3

HISTORICAL FINANCIAL INFORMATION RELATING TO THE PINNACLE GROUP FOR THE FINANCIAL YEAR ENDED 28 DECEMBER 2018

INDEPENDENT AUDITORS REPORT 2018 OF PINNACLE

To the Shareholders of Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings Inc.)

Opinion

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

- the consolidated statements of financial position as at December 28, 2018 and December 29, 2017;
- the consolidated statements of profit (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,
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 28, 2018 and end of December 29, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 21, 2019

Consolidated Statements of Financial Position

As at	Note	**December 28, 2018**	December 29, 2017
Assets			
Current assets			
Cash and cash equivalents		**18,028**	18,908
Accounts receivable	4	**43,017**	41,253
Inventory	5	**24,531**	17,709
Other current assets		**5,846**	3,392
		91,422	81,262
Property, plant and equipment	6	**330,899**	238,196
Investment in Houston Pellet Limited Partnership	7	**9,374**	8,916
Receivable against NMTC debt	10	**84,877**	-
Other long-term assets		**2,500**	51
Deferred income taxes	19	**149**	-
Goodwill and intangible assets	8	**108,073**	105,220
Total assets		**627,294**	433,645
Liabilities and Shareholders' Equity			
Current liabilities			
Revolver loan	9	**18,450**	22,000
Accounts payable and accrued liabilities		**43,537**	35,653
Current portion of long-term debt	9	**9,500**	6,000
Current portion of NMTC debt	10	**1,515**	-
Other current liabilities		**3,642**	15,977
		76,644	79,630
Long-term debt	9	**232,425**	190,813
NMTC debt	10	**84,877**	-
Shareholders' debentures payable	11	**-**	88,881
Common and preferred shares classified as liabilities	12	**-**	25,992
Other long-term liabilities	13	**4,335**	3,457
Deferred income taxes	19	**-**	9,668
		398,281	398,441
Shareholders' Equity			
Common shares	14	**273,966**	29,500
Preferred shares		**-**	28,005
Contributed surplus		**3,556**	4,332
Equity component of convertible debentures		**-**	35,213
Accumulated Other Comprehensive Income		**-**	-
Deficit		**(86,437)**	(75,419)
Total equity attributable to owners of the Company		**191,085**	21,631
Non-controlling interest	15	**37,928**	13,573
Total equity		**229,013**	35,204
Total liabilities and shareholders' equity		**627,294**	433,645

(expressed in thousands of Canadian Dollars unless otherwise stated)

Contingencies (note 28) Subsequent events (note 31)
See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin
Director, Gregory Baylin

s/Hugh MacDiarmid
Director, Hugh MacDiarmid

Consolidated Statements of Profit (Loss)

Fiscal year ended	Note	**December 28, 2018**	December 29, 2017
Revenue	29	**347,440**	292,727
Costs and expenses			
Production		**233,107**	188,414
Distribution		**46,899**	38,421
Selling, general and administration		**22,789**	15,268
Amortization of equipment and intangible assets		**24,678**	21,819
		327,473	263,922
Profit before undernoted items		**19,967**	28,805
Equity earnings in Houston Pellet Limited Partnership	7	**(1,058)**	(1,381)
(Gain) loss on disposal of property, plant and equipment		**(382)**	1,049
(Gain) loss on class B&D common shares	12	**(3,563)**	5,601
Loss on conversion of debentures into shares	11	**21,881**	-
Finance costs excluding shareholder debentures	18	**3,042**	11,892
Finance costs on shareholder debentures	18	**-**	12,359
Other income		**(1,474)**	(983)
Plant impairment loss and curtailment costs		**234**	4,626
		18,680	33,163
Net profit (loss) before income taxes		**1,287**	(4,358)
Income tax (recovery) expense			
Deferred	19	**(1,415)**	526
		(1,415)	526
Net profit (loss)		**2,702**	(4,884)
Net profit (loss) attributable to:			
Owners of the Company		**1,850**	(5,237)
Non-controlling interests	15	**852**	353
		2,702	(4,884)
Net profit (loss) per share attributable to owners (Basic and diluted):	20	**0.05**	(0.22)
Weighted average of number of shares outstanding (thousands):		**32,974**	29,318

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income/(Loss)

Fiscal year ended	Note	**December 28, 2018**	December 29, 2017
Net Profit (loss)		**2,702**	(4,884)
Other comprehensive income (loss) net of taxes:			
Items that may be recycled through net income:			
Foreign exchange translation of foreign operations, net of tax	9	**-**	-
Comprehensive income (loss) for the year		**2,702**	(4,884)

Comprehensive income (loss) attributable to:			
Owners of the Company		**1,850**	(5,237)
Non-controlling interests		**852**	353
		2,702	(4,884)

(expressed in thousands of Canadian Dollars unless otherwise stated)

Consolidated Statements of Changes in Equity

	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures – Equity Component	Deficit	Non-controlling Interest	Accumulated Other Comprehensive Income	Total Equity
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)
Stock-based compensation (note 17)	-	-	-	237	-	-	-	-	237
Distribution to non-controlling interest	-	-	-	-	-	-	(500)	-	(500)
Investment by non-controlling interest	-	-	-	-	-	-	2,400	-	2,400
Balance, December 29, 2017	-	29,500	28,005	4,332	35,213	(75,419)	13,573	-	35,204
Balance, December 29, 2017	**-**	**29,500**	**28,005**	**4,332**	**35,213**	**(75,419)**	**13,573**	**-**	**35,204**
Net profit (loss) for the year	-	-	-	-	-	1,850	852	-	2,702
Share exchange at Initial Public Offering	57,505	(29,500)	(28,005)		-	-	-	-	-
Exchange of liability-classified shares at Initial Public Offering	22,448	-	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at Initial Public Offering	1,597	-	-	(1,597)	-	-	-	-	-
Conversion of debentures at Initial Public Offering	125,269	-	-	-	(35,213)	-	-	-	90,056
Share issuance at Initial Public Offering	70,019	-	-	-	-	-	-	-	70,019
Share issuance costs	(3,987)	-	-	-	-	-	-	-	(3.987)
Stock options exercised during the year	1,115	-	-	(464)	-	-	-	-	651
Stock-based compensation (note 17)	-	-	-	1,285	-	-	-	-	1,285
Dividends declared during the year	-	-	-	-	-	(12,868)	-	-	(12,868)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	(1,075)	-	(1,075)
Investment by non-controlling interests	-	-	-	-	-	-	24,578	-	24,578
Balance, December 28, 2018	**273,966**	**-**	**-**	**3,556**	**-**	**(86,437)**	**37,928**	**-**	**229,013**

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Fiscal year ended	Note	**December 28, 2018**	December 29, 2017
Cash provided by (used in)			
Operating activities			
Net profit (loss)		**2,702**	(4,884)
Financing costs, net	18	**3,042**	24,251
Items not involving cash:			
Loss on conversion of debentures into shares	11	**21,881**	-
Amortization of property, plant and equipment	6	**21,717**	18,904
Amortization of intangible assets	8	**2,961**	2,915
Equity earnings in Houston Pellet Limited Partnership	7	**(1,058)**	(1,381)
(Gain) loss on disposal of equipment		**(382)**	1,049
Stock-based compensation	17	**4,266**	237
Inventory write (up) down		**(319)**	-
Impairment loss on Quesnel Facility		**-**	3,245
(Gain) loss on Class B and D common shares	12	**(3,563)**	5,601
Deferred income tax (recovery) expense	19	**(1,399)**	526
Realized (gain) loss on derivatives		**308**	(10)
Distributions from Houston Pellet Limited Partnership		**600**	675
		50,756	51,128
Net change in non-cash operating working capital	21	**7,017**	(20,183)
		57,773	30,945
Financing activities			
Drawings on revolver loan	9	**24,450**	14,900
Repayment of revolver loan	9	**(28,000)**	-
Payment of finance leases		**(707)**	(198)
Drawings on term debt	9	**20,000**	180,000
Repayment of term debt	9	**(6,000)**	(160,000)
Drawings on delayed draw loan	9	**50,491**	20,000
Repayment of delayed draw loan	9	**(20,000)**	-
Issuance of Class D common shares		**-**	550
Repayment of $15M debentures	11	**(28,577)**	-
Share issuance costs	14	**(5,435)**	-
Proceeds from Initial Public Offering	14	**70,019**	-
Proceeds from exercise of stock options		**651**	-
Dividends paid during the year		**(12,868)**	-
Investment from non-controlling interest	15	**5,863**	2,400
Distributions to non-controlling interest	15	**(1,075)**	(500)
Finance costs paid		**(8,882)**	(8,340)
		59,930	48,812
Investing activities			
Purchase of intangible assets		**-**	(651)
Acquisition of the Aliceville Facility	22	**(47,569)**	-
Purchase of property, plant and equipment	21	**(73,131)**	(72,056)
Proceeds from sale of property, plant and equipment		**1,903**	25
		(118,797)	(72,682)
Foreign exchange gain (loss) on cash position held in foreign currency		**214**	(279)
Increase (decrease) in cash and cash equivalents		**(880)**	6,796
Cash and cash equivalents, beginning of year		**18,908**	12,112
Cash and cash equivalents, end of year		**18,028**	18,908

(expressed in thousands of Canadian Dollars unless otherwise stated)
See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

1. Reporting entity

Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings 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".

On December 29, 2018, Pinnacle Renewable Holdings Inc. completed a vertical short-form amalgamation under the Business Corporations Act (British Columbia) with its wholly-owned subsidiary, Pinnacle Renewable Energy Inc., pursuant to a director's resolution. Shortly following the amalgamation, the Company changed its name from "Pinnacle Renewable Holdings Inc." to "Pinnacle Renewable Energy Inc."

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 Province of British Columbia and Alberta and in the United States (currently in the state of Alabama). The Company's new facility in Entwistle, Alberta started commercial operations on June, 29, 2018. During 2018, the Company entered into the US market by acquiring a 70% interest in Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC") which holds 100% equity in operating company Westervelt Pellet I, LLC ("WPI LLC") with a facility located in Alabama. 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. During the year, the Company also entered into pre-commercial production for its new facility in Smithers, British Columbia.

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

2. Basis of preparation

a) *Statement of compliance and basis of measurement*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2019.

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

The fiscal year or year referred to in the consolidated financial statements are the 52-week periods ended December 28, 2018 and December 29, 2017.

Accounting standards adopted in 2018

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from contracts with customers* and IFRS 9, *Financial Instruments*.

Accounting Standards issued but not yet effective

IFRS 16 *Leases*, was issued in January 2016 by the IASB as a replacement for IAS 17 *Leases* and is effective for annual periods beginning on or after January 2019. IFRS 16 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. Right-to-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

IFRS 16 may be applied retrospectively to each prior period presented (full retrospective approach), or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The modified retrospective method offers the option, on a lease by lease basis, to either measure the right of use asset retrospectively using the discount rate as at the date of initial application, or to measure the right of use asset at an amount equal to the lease liability. The Company has elected to apply the modified retrospective approach upon adoption at January 1, 2019, measuring the right of use asset at an amount equal to the lease liability. The short-term and low-value recognition exemptions available under the standard will be utilized, along with certain practical expedients.

Based on lease data as at December 28, 2018, IFRS 16 is expected to result in an increase to right-to-use assets and lease liabilities of approximately $48,000. The Company is finalizing its analysis and calculations in the first quarter and will provide all the required disclosures and amounts when filing its condensed consolidated interim financial statements in the first quarter of 2019.

b) Basis of consolidation

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

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

To simplify the structure and to eliminate non-operating entities, Pinnacle Pellet Houston Inc. has been wound up during the year ended December 28, 2018. During the year, the Company expanded its operations into the United States ("US") by entering into a partnership with The Westervelt Company ("TWC"). PWRH LLC was created, with Pinnacle holding a 70% interest in the partnership through PRHUSA, and TWC holding the remaining 30%. PWRH LLC owns 100% of the operating entity WPI LLC.

c) Functional currency

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

d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are 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 27 – 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 28, 2018 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 11 – determination of the fair value of debt and equity components of convertible debentures on the basis of significant unobservable inputs up until the convertible debentures were converted into common shares;

Note 12 – determination of the fair value of common shares classified as liabilities on the basis of significant unobservable inputs up until the common shares were either repurchased or converted into the Company's common shares at the IPO date;

Note 13 – recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources; and,

Note 19 – 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 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.

e) Foreign currency translation

Foreign currency transactions:

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

Foreign operations:

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

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

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

Hedge of net investment in a foreign operation:

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

f) Cash and cash equivalents

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

g) Inventory

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

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

h) *Property, plant and equipment*

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

Amortization is recognised 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).

i) *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).

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 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.

m) Income taxes

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

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

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

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

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

n) Provisions

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

o) Decommissioning liabilities

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

p) Revenue recognition

IFRS 15 *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts and related interpretations*. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services, whether at a point in time or over time. The adoption of IFRS 15 does not have a significant impact on the revenue recognized by the Company, and had no financial impact on Pinnacle's consolidated financial statements.

Revenue from the sale of goods is measured based on the consideration specified in a contract with a customer, and is recognised 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 recognised as revenue as services are provided, and are recorded in costs and expenses.

Finished wood pellets

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

q) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consist of cash and cash equivalents, trade and other receivables, certain investments and advances, 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 profit (loss), any directly attributable transaction costs.

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

- Cash and cash equivalents, trade and other receivables, and interest-bearing marketable securities expected to be held to maturity are categorized as amortized cost and are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses.

- Trade payables and provisions, and loans and borrowings including long term debt are categorized as other financial liabilities and are subsequently measured at amortized cost 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 USD 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 profit (loss).

As at December 28, 2018, the Company does not have any outstanding compound financial instruments.

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 17. 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.

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.

4. Accounts Receivable

As at		**December 28, 2018**		December 29, 2017
Trade accounts receivable	$	**11,274**	$	14,503
Current portion of receivable against NMTC debt (note 10)		**1,515**		-
Other receivables		**29,538**		25,965
Amounts receivable from related parties (note 23)		**690**		785
	$	**43,017**	$	41,253

(expressed in thousands of Canadian Dollars unless otherwise stated)

Included in other receivables is $ 23,085 (2017 - $14,590) of accrued sales for partially loaded vessels which were invoiced in the month subsequent to year end.

5. Inventory

As at		**December 28, 2018**		December 29, 2017
Wood pellets	$	**8,896**	$	6,479
Fibre		**7,575**		6,764
Supplies and spare parts		**8,060**		4,466
	$	**24,531**	$	17,709

(expressed in thousands of Canadian Dollars unless otherwise stated)

The above inventory balances include adjustments to measurement estimates and to net realizable values which resulted in write-ups and write-downs. For the year ended December 28, 2018, fibre inventory reflects a write-up of $424 (December 29, 2017 - write-up of $594). The provision related to wood pellets as at December 28, 2018 was $105 (December 29, 2017 - $nil). These adjustments are included in production costs in net profit (loss).

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

		Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	**Total**
Balance, beginning of fiscal year	$	43,541	119,384	73,852	236,777
Additions		-	961	64,716	65,677
Amortization		(3,973)	(17,744)	-	(21,717)
Disposals and retirements		(153)	(1,370)	-	(1,523)
Acquisition of Aliceville Facility		7,953	41,494	-	49,447
Exchange rate movement		360	1,878	-	2,238
Transfer from construction-in-progress		25,974	81,802	(107,776)	-
Balance, December 28, 2018	**$**	**73,702**	**226,405**	**30,792**	**330,899**
Cost	$	95,609	332,065	30,792	458,466
Accumulated amortization		(21,907)	(105,660)	-	(127,567)
Balance, December 28, 2018	**$**	**73,702**	**226,405**	**30,792**	**330,899**

(expressed in thousands of Canadian Dollars unless otherwise stated)

		Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	**Total**
Balance, beginning of fiscal year	$	40,112	124,845	8,639	173,596
Additions		6,632	3,004	75,934	85,570
Amortization		(2,928)	(14,787)	-	(17,715)
Disposals and retirements		-	(1,058)	-	(1,058)
Impairment loss		(1,000)	(2,245)	-	(3,245)
Transfer from construction-in-progress		725	9,625	(10,721)	(371)
Balance, December 29, 2017	$	43,541	119,384	73,852	236,777
Cost	$	66,095	199,778	73,852	339,725
Accumulated amortization		(22,554)	(80,394)	-	(102,948)
Balance, December 29, 2017	$	43,541	119,384	73,852	236,777

(expressed in thousands of Canadian Dollars unless otherwise stated)

Additions includes assets acquired through acquisition of Aliceville facility (note 22). At December 28, 2018, PP&E includes $29,826 (December 29, 2017 - $8,767) for construction-in-progress of our new plant in Smithers, BC. On June 29, 2018, Entwistle was commissioned and operating as intended by management and thus construction in progress has been transferred into other PP&E asset categories.

7. 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 28, 2018**	December 29, 2017
Current assets	$	**19,943**	17,616
Non-current assets		**7,660**	8,544
Current liabilities		**(2,432)**	(2,516)
Net assets	$	**25,171**	23,644
Company's share of net assets		**7,551**	7,093
Goodwill		**1,823**	1,823
Investment in HPLP	$	**9,374**	8,916

(expressed in thousands of Canadian Dollars unless otherwise stated)

		December 28, 2018	December 29, 2017
Revenue	$	**32,858**	30,750
Expense		**(27,845)**	(24,503)
Amortization		**(1,423)**	(1,337)
Loss on disposal of property and equipment		**(63)**	(308)
Net profit	$	**3,527**	4,602
Company's share of net profit	$	**1,058**	1,381

(expressed in thousands of Canadian Dollars unless otherwise stated)

8. Goodwill and intangible assets

		Goodwill	Customer relationships	Supply agreements	Other	Total
Balance, December 30, 2016	$	97,482	5,565	4,043	1,814	108,904
Additions		-	-	651	-	651
Amortization		-	(1,663)	(1,209)	(43)	(2,915)
Balance, December 29, 2017	$	97,482	3,902	3,485	1,771	106,640
Additions		4,204	-	-	-	4,204
Exchange rate movement		190	-	-	-	190
Amortization		-	(1,663)	(1,208)	(90)	(2,961)
Balance, December 28, 2018	**$**	**101,876**	**2,239**	**2,277**	**1,681**	**108,073**
At December 29, 2017						
Cost	$	97,482	15,000	11,551	2,199	126,232
Accumulated amortization		-	(11,098)	(8,066)	(428)	(19,592)
Net book value at December 29, 2017	$	97,482	3,902	3,485	1,771	106,640
At December 28, 2018						
Cost	$	101,876	15,000	11,551	2,199	130,626
Accumulated amortization		-	(12,761)	(9,274)	(518)	(22,553)
Net book value at December 28, 2018	**$**	**101,876**	**2,239**	**2,277**	**1,681**	**108,073**

(expressed in thousands of Canadian Dollars unless otherwise stated)

On October 15, 2018, the Company acquired 70% interest in the US partnership PWRH LLC. Additions to goodwill include the consideration paid in excess of the net assets acquired in the partnership (note 22).

The Company conducted its annual impairment testing in the fourth quarter. The recoverable amount of goodwill is determined based on the greater of the value in use and the fair value less costs to sell of each of the Company's cash generating units. Given the recent acquisition of Aliceville and the goodwill associated with that acquisition, the Company did not complete a separate impairment test for the goodwill associated with this acquisition. The remaining goodwill relates to the Company's Canadian operations. The Company utilized the fair value less costs to sell approach and determined based on the fair value of the Company, as evidenced by the Company's share price over the net book value of its equity at December 28, 2018, that there was sufficient head room to not perform any further analysis of fair value less costs to sell or a value in use determination for 2018.

9. Long-term debt

As at		**December 28, 2018**	December 29, 2017
Revolver loan	$	**18,450**	22,000
Term loan		**194,000**	180,000
Delayed draw		**50,491**	20,000
	$	**262,941**	222,000
Less:			
Revolver loan – current portion		**(18,450)**	(22,000)
Term loan – current portion		**(9,500)**	(6,000)
Deferred financing costs		**(2,566)**	(3,187)
	$	**232,425**	190,813

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

		Revolver loan	Term loan	Delayed draw	Total
2019	$	18,450	9,500	-	27,950
2020		-	14,500	3,029	17,529
2021		-	19,000	4,797	23,797
2022		-	151,000	42,665	193,665
2023		-	-	-	-
Total	**$**	**18,450**	**194,000**	**50,491**	**262,941**

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at December 28, 2018 and December 29, 2017, the Company has a credit facility from nine lenders through a syndicated loan agreement which 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 16, 2022.

Advances under the Facility are available as CAD Prime-Based Loans, Banker's Acceptances ("BA") from the BA Lenders in CAD, BA Equivalent Loans from the Non-BA Lenders in CAD, USD Base Rate Loans, and LIBOR Loans in USD. 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.

During the year ending December 28, 2018, the Company made scheduled repayments of the term loan of $6,000 (2017 - $1,600). As at December 28, 2018, the $194,000 term loan was in a CAD BA loan at 5.03%, the $18,450 revolver loan was in a CAD BA loan at 5.70% and the $50,491 (USD $37,100) delayed draw was in a USD BA loan at 8.00%. At December 29, 2017, the $180,000 term loan and the $22,000 revolver loan were in CAD Prime loans at 5.70% and the $20,000 delayed draw term loan was in a CAD BA loan at 4.86%. At December 28, 2018, the Company had issued letters of credit totaling $1,438 (December 29, 2017 - $530). The delayed draw has been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $1,500 (2017 - nil) arising on its revaluation were recognized in foreign currency translation differences in other comprehensive income for the year ended December 28, 2018.

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 28, 2018, the Company was in compliance with all debt covenants.

The debt is secured by a first-ranking security interest on all present and after-acquired assets of the Company.

10. New Market Tax Credit Debt

As at		**December 28, 2018**	December 29, 2017
NMTC loan	$	**86,392**	-
	$	**86,392**	
Less:			
current portion		**(1,515)**	-
	$	**84,877**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

		NMTC loan
2019	$	1,515
2020		84,877
2021		-
2022		-
2023		-
Total	**$**	**86,392**

(expressed in thousands of Canadian Dollars unless otherwise stated)

In 2012 and 2013, WPI 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 secured low interest financing from the investment fund.

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

As at December 28, 2018, WPI LLC has outstanding NMTC debt of approximately USD $63,000.

The NMTC Investors are subject to 100% recapture of the credits they receive under the NMTC program for a period of seven years as provided in the U.S. Internal Revenue Code and applicable U.S. Treasury regulations.

WPI is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance with applicable requirements could result in the NMTC Investors' projected tax benefits not being realised and, therefore, require WPI to indemnify the NMTC Investor for any loss or recapture of credit under the NMTC program related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

Pursuant to an indemnity agreement entered into as part of the Company's acquisition of interest in the Aliceville Facility, Westervelt has guaranteed WPI LLC's NMTC debt by providing a capital contribution to PWRH of an equal and offsetting amount to the NMTC debt and associated interest payments. The NMTC Debt is not included in calculation of Total Funded Debt for bank covenant calculations as it is indemnified by TWC and the Company carries the NMTC Receivable from TWC of an equal amount.

Pursuant to the put/call feature of the NMTC arrangement, WPI LLC intends to purchase the NMTC Investors' interest in the investment fund at the end of the seven-year compliance period, resulting in the forgiveness of the NMTC debt. This unwinding of NMTC debt is anticipated to occur on or about January 31, 2020.

11. Shareholders' debentures payable

As at		**December 28, 2018**	December 29, 2017
Convertible debentures at face value	$	-	60,000
Accrued interest debentures at face value		-	49,570
Effective interest rate adjustment on convertible debentures		-	(48,364)
		-	61,206
Subordinated debentures at face value		-	15,000
Accrued interest on subordinated debentures		-	13,571
		-	28,571
		-	89,777
Less: current interest payable in other current liabilities		-	(896)
	$	-	88,881

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at December 29, 2017, the ONCAP entities ("ONCAP") collectively owned 60% of the Company and was the Company's controlling parent. ONCAP held convertible debentures totaling $60,000 at face value and $49,570 representing accrued interest. The Company carried the combined fair value of these instruments of $61,206 as liability and $35,213 as equity on the consolidated statements of financial position. ONCAP and other minority shareholders also held subordinated debentures totaling $15,000 at face value.

Upon the closing of the IPO on February 6, 2018, the convertible debentures were exchanged for common shares. The $60,000 convertible debentures were converted at their conversion value along with an associated deferred income tax recovery of $6,971 with no gain or loss on conversion. The $49,570 debentures were exchanged for new common shares at their face value, resulting in a $21,881 loss on exchange, representing the difference between the carrying value and the face value, netted against an associated deferred income tax recovery of $5,759. The carrying value of the subordinated debentures and accrued interest of $28,577 were repaid from proceeds of treasury shares issued at the IPO.

12. Common and preferred share classified as liabilities

As at		**December 28, 2018**	December 29, 2017
Class B common shares 5,500,000 shares; cost of $5,500	$	-	17,215
Class D common shares 1,172,414 shares; cost of $1,550		-	3,646
Class H common shares 5,004,000 shares; cost of $5,055		-	5,131
	$	-	25,992

(expressed in thousands of Canadian Dollars unless otherwise stated)

At December 29, 2017, the Company's management held Class B and Class D common shares. These shares contained features that could require future settlement in cash and Class D shares had 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. The fair value measurements for these classes of shares were presented as liabilities. Class H preferred shares accrued dividends at 4.5% and 3.0% was paid quarterly. The difference of 1.5% was added to their carrying value.

Upon the closing of the IPO on February 6, 2018, Class B and Class D common shares and Class H preferred shares presented as liabilities were exchanged for new common shares at their fair value, resulting in a $3,563 gain on conversion.

13. Other long-term liabilities

		December 28, 2018	December 29, 2017
Derivative contacts – long-term	$	**-**	218
Decommissioning liabilities		**2,101**	2,192
Other		**2,234**	1,047
	$	**4,335**	3,457

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 29, 2017	Change in discounted amount	**December 28, 2018**
Plants	$	745	(44)	**701**
Port Facility		1,170	(52)	**1,118**
Rail cars		277	5	**282**
Total decommissioning liabilities	$	2,192	(91)	**2,101**

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 2.18% (2017 – 2.26%) 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 2.18% (2017 – 2.26%) 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.

14. Shareholders' equity

Prior to the IPO, the Company's authorized share capital was as described in the December 29, 2017 annual consolidated financial statements.

In connection with the IPO, the Company amended its share structure ("Pre-Closing Capital Changes") and issued new common shares as follows:

Share structure	Pre-closing share structure		New common shares	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Class A common shares	**25,000,000**	**25,000**	5,831,730	25,000
Class B common shares	**4,500,000**	**4,500**	1,049,711	4,500
Class B common shares (liability)	**5,500,000**	**17,215**	1,282,980	14,275
Class D common shares (liability)	**1,172,474**	**3,646**	254,592	3,023
Class E preferred shares	**500,000**	**500**	36,719	500
Class F preferred shares	**19,000,000**	**19,000**	2,274,553	19,000
Class G preferred shares	**8,600,000**	**8,505**	982,341	8,505
Class H preferred shares (liability)	**5,004,000**	**5,150**	457,785	5,150
Convertible debentures	**-**	**-**	14,076,068	125,269
Stock options exercised	**-**	**-**	432,853	1,597
Share issuance	**-**	**-**	6,223,889	70,019
Share issuance cost	**-**	**-**	-	(3,987)
	69,276,474	**83,516**	32,903,221	272,851

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at December 28, 2018, 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.

As at December 28, 2018, there were 33,003,713 common shares issued and outstanding and no preferred shares issued and outstanding. 1,120,885 common shares were issued on the exercise of stock options during the fiscal year ended December 28, 2018 (note 17) which added $1,115 to common shares at December 28, 2018 resulting in $273,966 for common shares after deducting cumulative share issuance cost of $3,987.

15. Non-controlling Interests

The following table summarizes the non-controlling financial information relating to Lavington Pellet Limited Partnership ("LPLP"), Smithers Pellet Limited Partnership ("SPLP") and Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC") before inter-company eliminations:

LPLP		**25%**	25%
As at		**December 28, 2018**	December 29, 2017
Current assets	$	**9,652**	8,703
Non-current assets		**38,176**	40,610
Current liabilities		**(3,631)**	(3,650)
Non-current liabilities		**(852)**	(970)
Net assets	$	**43,345**	44,693
Net assets attributable to NCI	$	**10,836**	11,173

(expressed in thousands of Canadian Dollars unless otherwise stated)

SPLP		**30%**	30%
As at		**December 28, 2018**	December 29, 2017
Current assets	$	**4,868**	1,828
Non-current assets		**29,418**	9,417
Current liabilities		**(6,857)**	(3,245)
Net assets	$	**27,429**	8,000
Net assets attributable to NCI	$	**8,229**	2,400

(expressed in thousands of Canadian Dollars unless otherwise stated)

PWRH LLC		30%	30%
As at		**December 28, 2018**	December 29, 2017
Current assets	$	**22,849**	-
Non-current assets		**135,963**	-
Current liabilities		**(8,237)**	-
Non-current liabilities		**(84,877)**	-
Net assets	$	**65,698**	-
Net assets attributable to NCI		**19,709**	-
Unrealized gain (loss) on foreign exchange		**(846)**	-
Net assets attributable to NCI		**18,863**	-
Net assets attributable to NCI (USD)		**14,482**	-
Net assets attributable to NCI	$	**37,928**	13,573

(expressed in thousands of Canadian Dollars unless otherwise stated)

LPLP		December 28, 2018	December 29, 2017
Revenue	$	**48,536**	42,015
Net profit		**2,951**	1,412
Net profit allocated to NCI	$	**738**	353

(expressed in thousands of Canadian Dollars unless otherwise stated)

SPLP		December 28, 2018	December 29, 2017
Revenue	$	**-**	-
Net loss		**(114)**	-
Net loss allocated to NCI	$	**(34)**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

PWRH LLC		December 28, 2018	December 29, 2017
Revenue	**$**	**13,251**	-
Net profit		**492**	-
Net profit allocated to NCI		**148**	-
Net profit allocated to NCI (USD)	**$**	**108**	-
Total net profit (loss) allocated to NCI		**852**	353

16. 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 28, 2018	December 29, 2017
Production	$	**20,920**	16,527
Distribution		**4,075**	2,972
Selling, general and administration		**13,065**	7,964

(expressed in thousands of Canadian Dollars unless otherwise stated)

[1] Employee benefit expense for the year ended December 28, 2018 includes stock-based compensation of $4,266 (2017 - $237) (note 17).

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

Fiscal year ended		December 28, 2018	December 29, 2017
Production	$	**17,365**	14,145
Distribution		**3,844**	3,824
Selling, general and administration		**3,469**	3,850

(expressed in thousands of Canadian Dollars unless otherwise stated)

17. Stock-based compensation

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

a) Legacy Plan

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

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

The Amended Options are designated as replacement awards. As a result of the amendment, the Company recognised $498 in stock-based compensation expense for the fiscal year ended December 28, 2018 (2017 - Nil), which represents the incremental fair value of the vested portion of the replacement awards.

Following completion of the IPO, no additional awards are granted under the Legacy Plan. The outstanding options under the Legacy Plan have a term of 10 years and are exercisable for common shares of the Company. 1,594,491 common shares, representing approximately 4.83% of the Company's common shares upon the completion of the IPO, are reserved and available for issuance upon exercise of options previously granted under the Legacy Plan.

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

	December 28, 2018[1]		December 29, 2017[1]	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**2,715,376**	**6.63**	6,778,000	1.00
Granted	**-**	**-**	1,200,000	3.00
Exercised	**(1,120,885)**	**6.48**	-	-
Forfeited / cancelled / expired	**-**	**-**	-	-
Outstanding, end of year	**1,594,491**	**8.13**	7,978,000	1.33

(expressed in thousands of Canadian Dollars unless otherwise stated)

[1] This table reflects the options and exercise prices after the option amendment which took effect immediately prior to the closing of the IPO.

For the fiscal year ended December 28, 2018, a total of $1,216 in stock-based compensation expense was recognised in relation to the Legacy Plan (2017 - $237) including the amounts for the amended options as discussed above. Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

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

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

i. Options

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

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

Dividend yield	5.33%
Expected volatility	33.11%
Risk-free interest rate	1.96% to 2.43%
Expected life	10 years
Exercise price	$11.91 to $16.21

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

	December 28, 2018[1]		December 29, 2017[1]	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**-**	**-**	-	-
Granted	**150,000**	**14.53**	-	-
Exercised	**-**	**-**	-	-
Forfeited / cancelled / expired	**-**	**-**	-	-
Outstanding, end of year	**150,000**	**14.53**	-	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

[1] This table reflects the options and exercise prices after the option amendment which took effect immediately prior to the closing of the IPO.

For the fiscal year ended December 28, 2018, a total of $107 of stock-based compensation expense (2017 - $nil) in relation to options granted under the LTIP was included in selling, general and administration expenses.

ii. Restricted share units

For the fiscal year ended December 28, 2018, the Company granted 271,921 RSUs (2017 - Nil) out of which 259,356 RSUs were vested immediately upon grant.

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

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

Dividend yield	5.33%
Expected volatility	33.11%
Risk-free interest rate	1.88% to 1.92%
Expected life	4.01 to 6.01 years
Exercise price	$nil

For the fiscal year ended December 28, 2018, stock-based compensation expense in relation to RSUs granted under the LTIP was $4,266 (2017 - $nil) and was included in selling, general and administration expenses.

18. Finance costs

a) Finance costs excluding shareholders' debentures

		December 28, 2018	December 29, 2017
Interest on revolver loan, term debt and delayed draw loan	$	**8,851**	7,425
Fair value (gain)/loss on derivatives		**(5,613)**	1,566
Realized (gain)/loss on derivatives		**(597)**	(135)
Unrealized (gain)/loss on foreign exchange		**(1,748)**	(268)
Realized gain on foreign exchange		**360**	436
Amortization of deferred financing fees		**652**	1,094
Other		**1,137**	1,774
	$	**3,042**	11,892

(expressed in thousands of Canadian Dollars unless otherwise stated)

b) Finance costs on shareholders' debentures

		December 28, 2018	December 29, 2017
Interest on debentures (note 11)	$	**-**	12,359
	$	**-**	12,359

(expressed in thousands of Canadian Dollars unless otherwise stated)

19. Income taxes

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

Fiscal year ended		**December 28, 2018**	December 29, 2017
Income tax recovery (expense) at statutory rate of 27.00% (2017 - 26.00%)	**$**	**348**	1,133
(Increase) decrease related to			
Permanent differences and other		**1,055**	(1,298)
Entities with different tax rates and foreign rate adjustments		**12**	-
Change in tax rates		**-**	(361)
		1,415	(526)
Classified as			
Current		**-**	-
Deferred		**1,415**	(526)
Income tax recovery (expense)	**$**	**1,415**	(526)

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 29, 2017	**$**	26,035	851	1,413	157	28,456
Increase (decrease) to earnings		(2,177)	305	705	1,107	(60)
Balance, December 28, 2018	**$**	**23,858**	**1,156**	**2,118**	**1,264**	**28,396**

(expressed in thousands of Canadian Dollars unless otherwise stated)

Deferred tax liabilities:		Property, plant and equipment	Convertible debentures	Intangible assets	Deferred financing costs	Other	Total
Balance, December 29, 2017	**$**	(22,194)	(12,730)	(1,914)	(1,188)	(98)	(38,124)
Increase (decrease)		(2,296)	12,730	402	495	(1,454)	9,877
Balance, December 28, 2018	**$**	**(24,490)**	**-**	**(1,512)**	**(693)**	**(1,552)**	**(28,247)**
Net deferred tax liability at December 29, 2017	$						(9,668)
Net deferred tax liability at December 28, 2018	**$**						**149**

(expressed in thousands of Canadian Dollars unless otherwise stated)

At December 28, 2018, the Company has $87,713 (2017 - $96,425) of unused Canadian non-capital loss carry forwards expiring between 2032 and 2038 to reduce future Canadian taxable income, and $182 (2017 – nil) of unused U.S. federal net operating loss carryforwards to reduce future U.S. taxable income.

20. Earnings per share

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

		December 28, 2018	December 29, 2017
Net profit (loss) for the year attributable to owners	$	**1,850**	(5,237)
Cumulative preferred dividends		**(104)**	(1,242)
	$	**1,746**	(6,479)
Net profit (loss) per share (basic and diluted)	$	**0.05**	(0.22)
Weighted average of number of shares outstanding (thousands)		**32,974**	29,318

(expressed in thousands of Canadian Dollars unless otherwise stated)

For the fiscal years December 29, 2017, the Company incurred a net loss attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive. The weighted average number of shares for the fiscal year ended December 28, 2018 and December 29, 2017 have been adjusted for Pre-Closing Capital Changes (note 14).

21. Supplemental cash flow information

		December 28, 2018	December 29, 2017
Accounts receivable	$	**7,098**	(16,526)
Inventory		**447**	2,713
Other current assets		**443**	181
Accounts payable and accrued liabilities		**13,033**	(20,733)
Other current liabilities		**(14,004)**	14,182
Net change in non-cash operating working capital	$	**7,017**	(20,183)

(expressed in thousands of Canadian Dollars unless otherwise stated)

		December 28, 2018	December 29, 2017
PP&E additions during the year	$	**65,677**	85,570
PP&E additions from prior year paid during the year		**9,250**	1,792
PP&E additions in accounts payable & other liabilities		**(1,796)**	(15,306)
Purchase of PP&E	$	**73,131**	72,056

(expressed in thousands of Canadian Dollars unless otherwise stated)

22. Acquisition of the Aliceville Facility

On October 15, 2018, the Company closed the acquisition of interest in the Aliceville Facility from The Westervelt Company (“Westervelt”), a diversified land resources company, at a purchase price of approximately US$36.8 million. The Company entered into US market with this acquisition. The Aliceville Facility is wholly owned by Westervelt Pellets I, LLC (“WPI LLC”), a wholly owned subsidiary of Pinnacle Westervelt Renewable Holdings, LLC (“PWRH LLC”). PWRH LLC is owned 70% by Pinnacle through Pinnacle Renewable Holdings (USA) Inc. (“PRHUSA”) and 30% by Westervelt.

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

The acquisition was accounted for in accordance with IFRS 3, *Business Combinations*. The following summarizes the consideration paid and recognized amounts of assets acquired and liabilities assumed at the acquisition date, based on the preliminary purchase price allocation:

		Amount in USD	Amount in CAD
Cash	$	234	305
Non-cash working capital, net		9,703	12,634
Property, plant & equipment and intangible assets		37,977	49,446
Total net identifiable assets		**47,914**	**62,385**
Non-controlling interest		**(14,374)**	**(18,716)**
Goodwill		3,229	4,204
Total Consideration	$	**36,769**	**47,874**

(expressed in thousands of Canadian Dollars unless otherwise stated)

If the acquisition of interest in the Aliceville facility had occurred at the beginning of the fiscal year 2018, management estimates that the acquired assets would have increased total sales by $29,458 and reduced net profit by $1,201 for the year ended December 28, 2018. Acquisition-related costs of $731 principally related to external legal fee and due diligence costs have been included in the selling and administration costs when incurred.

23. Related parties

Parent and ultimate controlling entity

Prior to the IPO, the Company was controlled by ONCAP, who effectively owned 60% of the Company. ONCAP is ultimately controlled by Onex Corporation. During the year ended December 28, 2018, the Company paid a monitoring fee to ONCAP of $50 (2017 - $500). The monitoring fee was discontinued upon the closing of the IPO.

Minority shareholder

During the fiscal year, the Company paid rent on a plant facility to a minority shareholder in the amount of $240 (2017 - $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 Board members, 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 28, 2018	December 29, 2017
Base compensation and benefits	$	**1,552**	1,344
Board member fee		**181**	-
Annual bonus		**255**	429
Stock based compensation		**4,011**	218
	$	**5,999**	1,991

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 28, 2018	December 29, 2017
Purchases	$	**30,172**	24,030
Revenue		**5,564**	3,560
Management fee		**650**	639

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at		**December 28, 2018**	December 29, 2017
Amounts receivable	$	**690**	785
Amounts payable		**2,144**	2,715

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 28, 2018	December 29, 2017
Purchases	$	**48,536**	38,378
Revenue		**223**	354

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at		**December 28, 2018**	December 29, 2017
Amounts receivable	$	**779**	282
Amounts payable		**5,830**	2,760

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

SPLP

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

		December 28, 2018	December 29, 2017
Purchases	$	**-**	-
Revenue		**-**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at		**December 28, 2018**	December 29, 2017
Amounts receivable	$	**624**	-
Amounts payable		**740**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

WPI LLC

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

Amounts in USD		**December 28, 2018**	December 29, 2017
Purchases	$	**-**	-
Revenue		**399**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

As at (amounts in USD)		**December 28, 2018**	December 29, 2017
Amounts receivable	$	**662**	-
Amounts payable		**-**	-

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

24. Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and introduces a new model for the classification and measurement of financial assets and liabilities, a single expected credit loss model for the measurement of the impairment of financial assets and a new model for hedge accounting that is aligned with an entity's risk management activities.

Classification and measurement:

IFRS 9 replaces the various categories for the classification of financial assets and initially measures them at fair value unless they meet the certain conditions that permit classification as amortised cost. Under IFRS 9 and IAS 39, non-trading financial liabilities are classified and measured at amortized cost except for those designated at fair value through profit and loss. There was no significant change in the Company's measurement of its financial assets and liabilities under IFRS 9.

Under IFRS 9, cash and accounts receivables are classified as amortised cost. Under IFRS 9, the amortized cost category is restricted to those financial assets that meet the following conditions: the entity holds the assets to collect the contractual cash flows and those cash flows are solely payments of principal and interest. The Company holds it accounts receivable to collect the contractual cash flows which represents repayment of the invoiced amount within the short-term credit period. As there is no financing component, accounts receivables are initially measured at their transaction price.

Under IFRS 9, accounts payable, the revolver loan, term loan and delayed draw term loan, shareholders' debentures and Class H preferred shares are classified and measured at amortized cost. Class B and Class D common shares held by management continued to be designated as fair value through profit and loss until were settled.

Under IFRS 9 and IAS 39, the Company's derivative instruments are always classified and measured at fair value with changes in fair value recognised in the consolidated net profit (loss).

Impairment of financial assets:

IFRS 9 replaces the incurred loss model with the expected credit loss model for the recognition and measurement of impairment losses on financial assets. IFRS 9 allows an entity to use a simplified approach for trade accounts receivable. Under this approach, the Company measures its expected credit losses as the amount from all possible default events over the expected life of its trade accounts receivable. The Company monitors individual customer accounts receivable on a frequent basis and recognizes a credit loss on specific accounts when a default is identified. There was no adjustment to impairment losses resulting from the adoption of use of the expected credit loss model.

The convertible shareholder debentures and Class F preferred shares were classified as amortized cost and on February 6, 2018 these instruments were converted to common shares. Also, on February 6, 2018, the subordinated shareholders' debentures were repaid at their amortized cost (note 11).

The Class B common shares and Class D common shares classified as liabilities were carried at fair value based on the underlying fair value of the enterprise based on management's estimates. Accordingly, these financial instruments are classified as Level 3 in the fair value hierarchy. These Class B and D shares were converted to common shares on February 6, 2018. Prior to the conversion, these shares were revalued to their fair value based on the Company's enterprise value calculated with the IPO price of $11.25 per common share. This change in valuation resulted in reduction in the fair value of these financial instruments and a gain recognised in the Company's net loss (note 12).

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

For fiscal year ended		
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**
Net change in fair value		**(3,563)**
Conversion to common shares		**(17,298)**
Balance at December 28, 2018	$	**-**

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

As at		**December 28, 2018**	December 29, 2017
Other current assets	$	**2,690**	-
Other long-term assets		**2,449**	-
Other current liabilities		**-**	256
Other long-term liabilities		**-**	218
	$	**5,139**	474

(expressed in thousands of Canadian Dollars unless otherwise stated)

For the fiscal year ended December 28, 2018, the Company recognised a gain of $6,210 (2017 loss - $1,431) on its derivative financial instruments in its net profit (loss).

25. 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 28, 2018 is $18,028 (2017 - $18,908).

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 2018 and 2017. The receivable balance at December 28, 2018 is $43,017 (2017 - $41,253).

Included in accounts receivable is $1,515 (2017 – Nil) of unsecured receivables from TWC. The receivables against NMTC debt (note 10) $84,877 is also an unsecured receivable from TWC. However, the Company has received indemnification against all payments, liabilities and economic loss arising from the NMTC debt from TWC.

Liquidity risk

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

The contractual maturities of financial liabilities excluding future interest and shareholders' debentures and common and preferred shares at December 28, 2018 were as follows:

	Carrying amount	Contractual cash flows	3 months or less	3-12 months	More than 1 year
Non derivative financial liabilities					
Revolver loan[(i)]	$ 18,450	18,450	18,450	-	-
Accounts payable and accrued liabilities	43,537	43,537	43,537	-	-
Term loan	194,000	194,000	2,000	7,500	184,500
Delayed draw loan	50,491	50,491	-	3,029	47,462

(expressed in thousands of Canadian Dollars unless otherwise stated)

(i) Classified as 3 months or less as due on demand; however, maturity of the Revolver loan is December 13, 2022.

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

Market risk

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

Foreign currency

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

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

Particulars		**Notional amount**	**Average forward rate**	**Less than 1 year**	**Greater than 1 year**	**Fair value asset (liability)**
As at December 28, 2018						
USD Forward Contracts	**$**	**51,775**	**1.2556**	**25,800**	**25,975**	**5,139**
As at December 29, 2017						
USD Forward Contracts	$	73,564	1.2590	9,064	64,500	(474)

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 $2,300 (2017 - $1,794).

26. 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 28, 2018	December 29, 2017
External party debt (including revolver loan)	$	**262,941**	222,000
Shareholders' debenture payable		**-**	88,881
Common and preferred shares classified as liabilities		**-**	25,992
Less: cash		**(18,028)**	(18,908)
Net long-term obligations		**244,913**	317,965
Total equity		**229,013**	35,204
Total capitalization	$	**473,926**	353,169

(expressed in thousands of Canadian Dollars unless otherwise stated)

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.

27. 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:

Year		Financing Lease	Operating Lease
2019	$	1,031	10,674
2020		841	9,228
2021		185	7,403
2022		-	4,999
2023		-	4,607
Thereafter		-	28,837
	$	2,057	65,748

(expressed in thousands of Canadian Dollars unless otherwise stated)

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 $20,596 at December 28, 2018 (2017 - $22,514).

28. 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.

29. Revenue from contracts with customers

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

		December 28, 2018	December 29, 2017
Finished wood pellets	$	**339,782**	286,414
Port Services		**7,658**	6,313
	$	**347,440**	292,727

(expressed in thousands of Canadian Dollars unless otherwise stated)

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

		December 28, 2018	December 29, 2017
Europe	$	**262,875**	259,070
Asia		**68,084**	18,325
North America		**16,481**	15,332
	$	**347,440**	292,727

(expressed in thousands of Canadian Dollars unless otherwise stated)

30. 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 28, 2018, three of these customers represented 75% 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.

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.

31. Subsequent events

On December 29, 2018, we commenced commercial production at the Smithers Facility. Additional capital cost will be incurred at a later date.

On January 18, 2019, the Company reached a settlement on a damage claim it was pursuing against one of its equipment suppliers for approximately $7,483 in the Company's favour. The payment is expected to be received in the first quarter of 2019.

On February 11, 2019, Pinnacle temporarily suspended operations at the Entwistle Facility due to a fire and explosion that occurred at the dryer area of the facility. The Company is currently investigating the cause of the incident and developing action plans to restart the facility. The rest of the Entwistle Facility sustained little damage. The Company is working with its customers to mitigate the impact to the extent possible under the circumstances. Alberta Labour Occupational Health & Safety released control of the site back to the Company on February 20, 2019.