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GREENFIRST
FOREST PRODUCTS

GREENFIRST FOREST PRODUCTS INC.
(formerly Itasca Capital Ltd.)

Condensed Consolidated Interim Financial Statements (unaudited)

(In thousands of Canadian dollars unless otherwise stated)

For the three and nine-month periods ended September 25, 2021, and September 30, 2020

GREENFIRST FOREST PRODUCTS INC.
(formerly Itasca Capital Ltd.)
Condensed Consolidated Interim Statements of Financial Position (unaudited)
(In thousands of Canadian dollars unless otherwise stated)

	September 25, 2021	December 31, 2020
Assets		
Current assets		
Cash	**$33,778**	$5,282
Accounts receivable (note 5)	**35,599**	-
Inventory (note 6)	**104,625**	-
Prepaid expenses and other current assets	**4,972**	515
Total current assets	**178,974**	5,797
Property, plant and equipment (note 7)	**184,057**	11,517
Timberlands	**2,021**	-
Timber licenses	**11,814**	-
Pension plans in asset positions (note 10)	**29,154**	-
Deferred financing costs (note 11)	**1,908**	-
Right of use assets	**3,485**	-
Total assets	**$411,413**	$17,314
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$49,516**	$1,437
Other liabilities (note 8)	**11,502**	-
Current portion of long term debt (note 11)	**6,340**	-
Total current liabilities	**67,358**	1,437
Long term debt (note 11)	**109,147**	-
Post retirement obligations (note 10)	**11,395**	-
Lease liabilities (note 9)	**2,255**	-
Asset retirement obligations	**2,358**	-
Convertible debentures (note 12)	**-**	3,702
Total liabilities	**192,513**	5,139
Shareholders' equity (note 14)		
Share capital	**254,728**	38,362
Equity reserves	**9,328**	498
Accumulated other comprehensive loss	**(1,025)**	(126)
Accumulated deficit	**(44,131)**	(26,559)
Total shareholders' equity	**218,900**	12,175
Total liabilities and shareholders' equity	**$411,413**	$17,314

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

On behalf of the Board:

Signed: *"Rick Doman"* Director

Signed: *"Andrew McIntyre"* Director

GREENFIRST FOREST PRODUCTS INC.

(formerly Itasca Capital Ltd.)

Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Loss (unaudited)
(In thousands of Canadian dollars unless otherwise stated)

	Three months ended		Nine months ended	
	September 25, 2021	September 30, 2020	**September 25, 2021**	September 30, 2020
Net sales	**$28,928**	$-	**$28,928**	$-
Manufacturing and production	**(31,082)**	-	**(31,082)**	-
Selling, general and administrative expense	**(1,772)**	(776)	**(3,476)**	(1,168)
Duties	**(1,790)**	-	**(1,790)**	-
Other operating expenses, net	**(694)**	(28)	**(715)**	20
Operating loss	**(6,410)**	(804)	**(8,135)**	(1,148)
Other income (expenses)				
Transaction costs (note 4)	**(5,606)**	-	**(7,668)**	-
Interest expense	**(1,480)**	-	**(1,658)**	-
Other income (expense)	**10**	450	**(111)**	426
Net loss for the period	**(13,486)**	(354)	**(17,572)**	(722)
Other comprehensive (loss) income	**(784)**	(287)	**(899)**	305
Total comprehensive loss for the period	**($14,270)**	($641)	**($18,471)**	($417)
Basic and diluted loss per share (note 14)	**($0.16)**	($0.02)	**($0.41)**	($0.03)

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

GREENFIRST FOREST PRODUCTS INC.
(formerly Itasca Capital Ltd.)
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)
(In thousands of Canadian dollars unless otherwise stated)

	Share capital	Equity reserves	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
December 31, 2019	$37,589	$65	($239)	($24,307)	$13,108
Net loss for the period	-	-	-	(2,249)	(2,249)
Other comprehensive income (loss)	-	-	113	(3)	110
Shares issued	911	89	-	-	1,000
Options granted	-	42	-	-	42
Debenture conversion feature	-	302	-	-	302
Share issuance costs	(138)	-	-	-	(138)
December 31, 2020	38,362	498	(126)	(26,559)	12,175
Net loss for the period	-	-	-	(17,572)	(17,572)
Other comprehensive loss	-	-	(899)	-	(899)
Shares issued:					
Conversion of debentures	4,075	(302)	-	-	3,773
Exercise of options	1,449	-	-	-	1,449
Exercise of warrants	1,923	-	-	-	1,923
Rights offering	167,499	-	-	-	167,499
As consideration for business acquired	54,214	-	-	-	54,214
Share issuance costs	(3,662)	-	-	-	(3,662)
Allocation of proceeds to backstop warrants	(9,132)	9,132	-	-	-
September 25, 2021	**$254,728**	**$9,328**	**($1,025)**	**($44,131)**	**$218,900**

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

GREENFIRST FOREST PRODUCTS INC.
(formerly Itasca Capital Ltd.)
Condensed Consolidated Interim Statements of Cash Flows (unaudited)
(In thousands of Canadian dollars unless otherwise stated)

	Nine months ended	
	September 25, 2021	September 30, 2020
Cash provided by (used in):		
Operating activities:		
Net loss for the period	**($17,572)**	($722)
Adjustments for:		
Depreciation and amortization	**1,666**	-
Unrealized foreign exchange loss	**697**	305
Interest expense	**1,658**	-
Interest paid	**(100)**	-
Periodic benefit cost of post retirement plans	**144**	-
Other	**115**	12
Changes in non-cash operating working capital:		
Accounts receivable	**(34,789)**	-
Inventory	**(5,690)**	-
Prepaid expenses and other current assets	**(1,840)**	177
Accounts payable and accrued liabilities	**50,438**	551
Total cash (used in) provided by operating activities	**(5,273)**	323
Investing activities		
Acquisition of sawmills and newsprint mill (note 4)	**(245,062)**	-
Purchase of property, plant and equipment	**(773)**	-
Deposit for acquisition of Kenora sawmill (note 7)	**-**	(11,665)
Total cash used in investing activities	**(245,835)**	(11,665)
Financing activities		
Proceeds from rights offering (note 14)	**167,499**	-
Proceeds from term loan (note 11)	**126,103**	-
Proceeds from exercise of warrants (note 14)	**1,923**	-
Proceeds from exercise of options (note 14)	**1,449**	-
Deferred financing costs (note 11)	**(13,585)**	-
Share issuance costs (note 14)	**(3,662)**	(77)
Repayment of lease obligations	**(123)**	-
Total cash provided by (used in) financing activities	**279,604**	(77)
Increase (decrease) in cash	**28,496**	(11,419)
Cash, beginning of the period	**5,282**	12,912
Cash, end of the period	**$33,778**	$1,493

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

1. NATURE OF OPERATIONS

GreenFirst Forest Products Inc. (the "Company") began operating as a forest product business on August 28, 2021 with its acquisition of six lumber mills and one newsprint mill located in Ontario and Quebec. The Company manufactures and markets high quality forest and paper products and these condensed consolidated interim financial statements include four weeks of operations.

The Company also owns a sawmill in Kenora, Ontario, which was acquired on October 6, 2020. The Kenora sawmill remains idle as the Company continues to have discussions with the Ontario provincial government. Prior to the acquisition of the Kenora sawmill, the Company had no operations and held cash and marketable securities through its subsidiary 1347 Investors LLC. Effective January 13, 2021, the Company changed its name from "Itasca Capital Ltd." to GreenFirst Forest Products Inc.

The Company operates in two business segments, Forest Products and Newsprint. Through its Forest Products segment, the Company manufactures and markets a wide range of SPF lumber products for use in residential and commercial construction with by-products from production sold to pulp-producers and the Newsprint segment. The Newsprint segment manufactures and markets paper grade products used to print newspapers, advertising materials, food service bags and other publications.

The Company is registered in British Columbia, and the address of its principal place of business is 1800 – 510 West Georgia Street, Vancouver, British Columbia, V6B 0M3. The Company trades on the TSX Venture Exchange under the trading symbol of "GFP".

The Company's fiscal year end is the last day of the calendar year. Commencing in the current period, for interim reporting periods, the Company changed its accounting policy for the date of interim period end dates and commenced to use the last Saturday of the fiscal quarter. The impact of the change on the prior year comparative amounts was insignificant and therefore the change was not applied to the prior year reporting.

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting ("IAS 34"). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Accordingly, they should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 31, 2020.

These financial statements were approved by our Board of Directors on November 24, 2021.

Basis of Measurement

These consolidated financial statements have been prepared under the historical cost basis, except where otherwise stated in the applicable accounting policies.

Use of Estimates and Judgments

The preparation of condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses and disclosures at the date of these condensed consolidated interim financial statements.

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It also requires management to exercise judgment in the process of applying accounting policies. Significant areas requiring estimation include, inventory valuation, estimated useful lives of property, plant and equipment, recoverability of long-lived assets, fair value of the consideration paid and of the acquired assets and liabilities assumed on acquisitions (which are being measured on provisional basis), asset retirement obligations, and employee future benefits. Actual amounts could differ materially from these and other estimates, the impact of which would be recorded in future periods.

(In thousands of Canadian dollars unless otherwise stated)

Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's wholly owned subsidiary, 1347 Investors LLC, is US dollars; accordingly, its financial statements are converted into Canadian dollars for purposes of consolidation.

Reclassification

Certain amounts in prior periods have been reclassified to conform with the presentation for the current period.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Basis of Consolidation

These unaudited condensed consolidated interim financial statements included the balances and results of the Company and those entities over which the company exercises control. Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from when control commences until the date on which control ceases.

All transactions between consolidated entities are eliminated in the consolidation of these condensed consolidated interim financial statements. Set out below is a list of significant subsidiaries of the Company.

Subsidiary	Jurisdiction	Direct or Indirect Ownership	Date of control and consolidation
1347 Investors LLC	Delaware, USA	100%	November 19, 2019
Lumber Assets Holding L.P.	Ontario, Canada	100%	September 8, 2020
2776034 Ontario Inc.	Ontario, Canada	100%	September 8, 2020
GreenFirst Forest Products (QC) Inc.[1]	Quebec, Canada	100%	March 16, 2021

[1] *Formerly 9437-6001 Quebec Inc.*

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank accounts and time deposits and other investments that are highly liquid with original maturities of three months or less when purchased.

Accounts Receivable and Allowance for Expected Credit Losses

Trade accounts receivable are stated at the net amount expected to be collected. All customers are granted credit on a short-term basis. The Company maintains an allowance for expected credit losses resulting from the inability of its customers to make required payments. The Company's allowance is established based on historical patterns of accounts receivable collections and expected losses, including consideration of general economic conditions. Outstanding accounts receivable balances are reviewed frequently or when circumstances indicate a review is warranted, for example if there is a significant change in the aging of a customer's receivables or a customer's financial condition.

Inventory

Finished goods, work-in-process and raw materials inventories are valued at the lower of cost, as determined on the first-in, first-out basis for individual products, and net realizable value. Net realizable value is the estimated selling price of the inventory at period end less duties, transportation, disposal costs and reasonably predictable costs of completion. Manufacturing and maintenance supplies are valued at average cost. Inventory costs include material, transportation, labor and manufacturing overhead. The need for a provision for estimated losses from obsolete, excess or slow-moving inventories is reviewed periodically. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in inventories recognized as an expense in the period in which the reversal occurs.

Property, Plant, Equipment and Depreciation

Property, plant and equipment is recorded at cost, including applicable freight, capitalized borrowing costs, construction and installation costs, less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. The Forest Products segment production related plant and equipment are depreciated using the straight-line method over 2 to 20 years. Newsprint production related plant and equipment is depreciated using the units-of-production method. The total units of production used to calculate depreciation expense is determined by factoring annual production days, based on normal production conditions, by the economic useful life of the asset involved. The Company depreciates its non-production assets, including office, lab and transportation equipment, using the straight-line depreciation method over 3 to 25 years. Buildings and land improvements are depreciated using the straight-line method over 15 to 35 years and 5 to 30 years, respectively. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted where required. Gains and losses on the retirement of assets are included in operating income.

Logging roads and bridges with a useful life greater than one year are capitalized at construction costs less any government assistance, accumulated depreciation and impairment losses. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditures will flow to the Company. Depreciation of roads and bridges is based on harvestable timber accessed for the period relative to the total harvestable timber made accessible by the road or bridge.

Leases

At lease commencement date, the Company recognizes a right of use asset and a lease liability on the statement of financial position. The right of use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right of use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The Company also assesses the right of use asset for impairment when such indicators exist. On the statement of financial position, right of use assets and non-current lease liabilities have been disclosed separately and short-term lease liabilities have been included in other liabilities.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. After its initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit and loss if the right of use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients allowed under IFRS 16 *Leases*. Instead of recognizing a right of use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Impairment of Non-Financial Assets

The Company reviews non-financial assets, including property, plant and equipment and timber licenses, for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Cash generating units (CGUs) are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The recoverable amount is the greater of its value in use and its fair value less cost to sell. Value in use is based on estimates of discounted future cash flows expected to be recovered from a CGU, CGU group or asset through its use. Management develops its cash flow projections based on past performance and its expectations of future market and business developments. Once calculated, the estimated future pre-tax cash flows are 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 CGU.

Fair value less cost to sell is the amount obtainable from the sale of an asset, CGU or CGU group in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding financing costs and income tax expense. An impairment loss is recognized income (loss) when the carrying amount of any asset, CGU, or CGU group exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs or CGU group are allocated, first to reduce the carrying amount of any goodwill allocated to the CGU or CGU group, and then to reduce the net carrying amount of the other assets in the CGU or CGU group on a pro rata basis.

Impairment losses related to non-financial assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 and amortization, if no previous impairment loss had been recognized.

Maintenance Costs

The Company performs scheduled inspections, repairs and maintenance of plant machinery and equipment at the Company's manufacturing facilities during a full plant shutdown. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Timberlands

Timber on owned timberlands is accounted for as a biological asset and is recognized at fair value less costs to sell. Any change in fair value less costs to sell are recorded in the consolidated statement of profit and loss and other comprehensive income (loss).

Timber Licenses

Timber licenses include tree farm licenses, forest licenses and timber licenses with the Provinces of Ontario and Quebec. Timber licenses are carried at cost less accumulated amortization and any impairment losses. Licenses are depreciated using the straight-line method over the period of the license and expected renewal periods.

Income Taxes

Current tax comprises of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

The Company follows the asset and liability method of accounting for deferred income taxes. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of profit or loss in the period that includes the substantive enactment date. Deferred income tax assets are only recognized to the extent that they are considered probable to be realized.

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy that prioritizes the inputs used to measure fair value was established as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.
Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flows methodologies and similar techniques that use significant unobservable inputs.

Revenue Recognition and Measurement

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied. The majority of the Company's contracts have a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when control has been transferred to the customer. Generally, control passes upon delivery to a location in accordance with terms and conditions of the sale. Changes in customer contract terms and conditions as well as the timing of orders and shipments, may have an impact on the timing of revenue recognition.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring its products and is generally based upon contractual arrangements with customers or published indices. Revenue includes amounts charged to customers for shipping and handling. The Company sells its products both directly to customers and through distributors and agents, typically under agreements, with payment terms typically less than 15 days for lumber sales and less than 60 days for by-products and newsprint products

The Company has excluded from net sales any value-add, sales and other taxes which are collected concurrently with its revenue-producing activities.

The nature of the Company's contracts may give rise to variable consideration, which may be constrained, including sales volume-based rebates to customers. The Company estimates the level of sales volumes based on anticipated purchases at the beginning of the period and records a rebate accrual for each purchase toward the requisite rebate volume. These estimated rebates are included in the transaction price as a reduction to net sales.

Contract liabilities primarily relate to prepayments received from customers before revenue is recognized and sales volume rebates payable to customers. These amounts are included in other liabilities (note 8). Contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. The Company does not have any material contract assets as of September 25, 2021.

Reforestation and Decommissioning Obligations

Reforestation and decommissioning obligations relate to the Company's responsibility for reforestation under various timber licences and obligations related to landfill closure and other site remediation costs. Reforestation obligations are measured at the present value of the expenditures expected to be required to settle the obligations and are accrued and charged to profit and loss when timber is harvested. The reforestation obligation is reviewed at least annually, and changes to estimates are credited or charged to profit and loss.

The Company records the present value of a liability for decommissioning obligations in the period that a reasonable estimate can be made. The present value of the liability is added to the carrying amount of the associated asset and amortized over its useful life or, if there is no associated asset, it is expensed. Decommissioning obligations are reviewed annually and changes to estimates result in an adjustment of the carrying amount of the associated asset or, where there is no asset, they are credited or charged to other operating expenses.

Reforestation and decommissioning obligations are discounted at the risk-free rate at the reporting date and accreted over time through periodic charges to profit and loss. The liabilities are reduced by actual costs of settlement.

Employee Benefit Plans

The determination of expense and funding requirements for the Company's defined benefit pension and postretirement health care and life insurance plans are largely based on a number of actuarial assumptions. The key assumptions include discount rate, return on assets, salary increases, health care cost trends, mortality rates, longevity and service lives of employees.

Changes in the funded status of the Company's plans are recorded through other comprehensive income (loss) in the year in which the changes occur. Actuarial gains and losses, which occur when actual experience differs from actuarial assumptions, are reflected in accumulated other comprehensive income (loss), net of taxes. When the calculation results in a net benefit asset, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). To calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. Where it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future services, the net defined benefit asset is reduced to the amount of the asset ceiling. The impact of the asset ceiling is recognized in other comprehensive income (loss).

The Company's obligations for contributions to employee defined contribution pension plans are recognized in the consolidated statements of profit or loss in the periods during which services are rendered by employees

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Earnings Per Share

Earnings per share is calculated by dividing the net income (loss) for the period attributable to the common shareholders by the weighted average number of common shares issued and outstanding during the year.

The diluted weighted average number of shares is calculated using the treasury stock method. When earnings available to Common shareholders for diluted earnings per share are greater than earnings available to Common shareholders for basic earnings per share, the calculation is anti-dilutive and diluted earnings per share are deemed to be the same as basic earnings per share.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material, provisions are measured 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 in profit or loss.

Financial Instruments

All financial assets and liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires.

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Foreign Exchange

Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of the transactions or at average rates of exchange. At the end of each reporting period, monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in the foreign currency are only translated at the date of the transaction and not re-translated at subsequent period end. The Company translates the assets and liabilities of foreign operations from US dollars to Canadian dollars using the closing foreign exchange rate at end of the reporting period. Income and expenses are translated at the average exchange rate for the reporting period. The foreign exchange gains and losses are recorded through profit and loss and foreign currency translation differences are recorded through other comprehensive income.

Future Changes in Accounting Policies

None.

4. ACQUISITION OF SAWMILLS AND NEWSPRINT MILL

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill recognized is measured by the excess fair value of the consideration over the fair value of the identifiable net assets on the acquisition date. The determination of the fair value of the assets acquired and liabilities assumed requires management to use estimates that contain uncertainty, assumptions and judgement. The Company has engaged a valuations expert to assist in the assessment of the fair values of property, plant and equipment, and intangible assets. This work is expected to be complete by the end of the year. Transaction costs in connection with the business combination are expensed as incurred.

(In thousands of Canadian dollars unless otherwise stated)

On August 28, 2021, the Company acquired a business consisting of six sawmills and one newsprint mill, all located in either Ontario or Quebec, from certain Canadian subsidiaries of Rayonier Advanced Materials Inc. (the "Rayonier Asset Acquisition"), for aggregate consideration of $301.8 million consisting of $245.1 million in cash (US$193.5 million), $54.2 million in common shares and net indebtedness and estimated final adjustment balances of $2.6 million, which includes a $7.9 million credit note issued to the vendor to be paid in five equal annual installments.

The common share consideration resulted in the issuance of 28,684,433 common shares of the Company with a fair value of $1.89 per common share. The credit note consideration is non-interest bearing, is payable in five equal annual installments on the anniversary of the closing and has been discounted to its net present value. The Company intends to set-off the principal amount of the credit note against amounts owing by the vendor to the Company under a chip purchase agreement. Acquisition costs of $5.6 million were expensed as part transaction costs on the statements of profit or loss.

The Company has determined that the transaction represents a business combination under IFRS 3 *Business Combinations* ("IFRS 3"), with the Company identified as the acquirer and accordingly the transaction has been accounted for using the acquisition method of accounting in accordance with IFRS 3.

The Company has measured and recorded the identifiable assets acquired and the liabilities assumed at management's estimates of their acquisition-date fair values. The preliminary estimated fair values of assets acquired and liabilities assumed are based on the information available as of the acquisition date, which the Company believes provides a reasonable basis for estimating the fair values. However, given the timing of the acquisition, the Company and its external valuation experts are still assessing acquisition date fair value adjustments, including fair values of property, plant and equipment, leases and estimated final purchase price adjustments related to inventory and other items.

The Company's preliminary estimate of fair values is as follows:

Purchase price consideration:	
Cash	$245,062
Common shares of the Company	54,214
Indebtedness and estimated final adjustment balances	2,563
Total consideration	**$301,839**

Preliminary fair value of net assets acquired:	**August 28, 2021**
Inventory	$98,935
Property, plant and equipment	173,433
Pension plans in asset positions	30,186
Timber licenses	11,814
Other assets	9,088
Other liabilities	(5,598)
Post retirement obligations	(11,365)
Other non-current liabilities	(4,654)
Total fair value	**$301,839**

The preliminary estimates of the fair values of net identifiable assets acquired and liabilities assumed reasonably approximate the fair value of the consideration, and therefore it has been determined that there is no goodwill. The revenues from the acquired business included in the consolidated financial statements of the Company since the acquisition on August 28, 2021 were $28.9 million and the proforma unaudited revenue of the Company if the acquisition had occurred on January 1, 2021 was $472.2 million. Net loss from the acquired business since acquisition was $5.1 million. The Company does not have access to all of the records necessary to determine the earnings from the business had the acquisition occurred on January 1, 2021.

(In thousands of Canadian dollars unless otherwise stated)

5. ACCOUNTS RECEIVABLE

	September 25, 2021
Accounts receivable, trade	$25,385
Value added tax receivable	8,265
Accounts receivable, other	2,107
Allowance for expected credit losses	(158)
Accounts receivable, net	**$35,599**

There were no comparable balances as at December 31, 2020.

6. INVENTORY

	September 25, 2021
Finished goods	$34,266
Work-in-process	14,378
Raw materials	51,479
Manufacturing and maintenance supplies	4,502
Total inventory	**$104,625**

The Company recognized $28.2 million of inventory in manufacturing and production expenses during the period. There were no comparable balances as at December 31, 2020 or for the nine months ended September 30, 2020.

7. PROPERTY, PLANT AND EQUIPMENT

`	Land & Buildings	Machinery & Equipment	Roads & Bridges	Furniture & Fixtures	CIP[(1)]	Total
Gross carrying amount						
As of, January 1, 2021	$6,749	$4,778	$-	$-	$-	$11,527
Additions	-	255	-	-	518	773
Additions from acquisitions	45,639	104,373	13,972	337	9,112	173,433
Transfers	-	509	-	-	(509)	-
	52,388	109,915	13,972	337	9,121	185,733
Accumulated depreciation:						
As of, January 1, 2021	(10)	-	-	-	-	(10)
Depreciation	(129)	(1,328)	(205)	(4)	-	(1,666)
	(139)	(1,328)	(205)	(4)	-	(1,676)
Net book value	**$52,249**	**$108,587**	**$13,767**	**$333**	**$9,121**	**$184,057**

(1) Construction in progress

(In thousands of Canadian dollars unless otherwise stated)

On September 17, 2020, the Company entered into an agreement to acquire a sawmill and related assets located in Kenora, Ontario from the court appointed receiver for $11.5 million in cash. The acquisition closed on October 6, 2020. The assets purchased comprise a sawmill and related equipment and land of approximately 118 acres. In anticipation of closing of the acquisition, the Company deposited cash in escrow to fund the acquisition and certain closing costs, which amounted to $11.7 million as at September 30, 2020.

8. OTHER LIABILITIES

	September 25, 2021
Accrued payroll and benefits	$7,706
Accrued interest	1,109
Deferred revenue	1,388
Lease liabilities, current	1,236
Other liabilities	63
Total other liabilities	**$11,502**

There were no comparable balances as at December 31, 2020.

9. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Company's leases are primarily for corporate offices, warehouse space, rail cars and equipment. As of September 25, 2021, the Company's leases have remaining lease terms of 1 year to 7 years with standard renewal and termination options available at the Company's discretion. Certain equipment leases have purchase options at the end of the term of the lease, which are not included in the lease liabilities or right of use assets as it is not reasonably certain that the Company will exercise such options. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company uses its incremental borrowing rate in determining the present value of lease payments unless the lease provides an implicit or explicit interest rate. The weighted average incremental borrowing rate used in determining the lease liabilities as at September 25, 2021 was 3.73 percent.

The following table sets forth components of the lease liabilities.

	Lease Payments	Interest	Net Present Value
Remainder of 2021	$368	$32	$336
2022	1,295	100	1,195
2023	1,001	63	938
2024	455	37	418
2025	187	25	162
2026	175	17	158
Thereafter	296	12	284
Total	**$3,777**	**$286**	**$3,491**

10. PENSION AND OTHER POST RETIREMENT BENEFITS

Defined Benefit Plans

(In thousands of Canadian dollars unless otherwise stated)

As part of the Rayonier Asset Acquisition the Company assumed certain defined benefit pension and other postretirement plans covering certain union and non-union employees in Canada. Benefits under the defined pension plans are based on years of service and compensation levels. The defined benefit pension plans are closed to new participants. New participants are enrolled in the Company's defined contribution plan.

Defined benefit pension and other postretirement plan liabilities are calculated using actuarial estimates and management assumptions. These estimates are based on historical information, along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause the estimates to change.

The following tables set forth the changes in the accrued benefit obligation and plan assets and reconciles the funded status and the amounts recognized in the consolidated statement of financial positions for the defined benefit pension and postretirement plans as of September 25, 2021:

Plan assets	**Pension**	**Post-retirement**
Fair value of plan assets		
As of August 28, 2021	$106,452	$-
Interest income	247	-
Remeasurements -actuarial gain (loss on assets)	(1,098)	-
Employer contributions	(24)	-
Plan participants' contributions	1	-
Costs met from plan	(3)	-
Benefits paid	(149)	-
Fair value of plan assets as of September 25, 2021	105,426	-
Benefit obligation		
As of August 28, 2021	(81,856)	(5,775)
Current service cost	(203)	(4)
Interest expense	(167)	(14)
Plan participant contributions	(1)	-
Remeasurements:		
Change in membership experience	5	-
Changes in financial assumptions	199	-
Benefits paid	149	-
Benefit obligation as of September 25, 2021	(81,874)	(5,793)
Net defined benefit asset (liability) as of September 25, 2021	**23,552**	**(5,793)**

Recognized on statement of financial position	**Pension**	**Post-retirement**	**Total**
Pension plans in asset positions	**$29,154**	**$-**	**$29,154**
Post-retirement obligations	(5,602)	(5,793)	(11,395)
Net asset (liability) as of September 25, 2021	**$23,552**	**($5,793)**	**$17,759**

Non-pension, post retirement plans are unfunded and the Company's contributions are made as required.

Recognized in other comprehensive income	**Pension**	**Postretirement**
Remeasurement	**$894**	**$-**
Other comprehensive income for the period	**$894**	**$-**

(In thousands of Canadian dollars unless otherwise stated)

Components of net periodic benefit cost	Pension	Postretirement
Service cost	$203	$4
Administrative costs paid from plan	3	-
Interest expense	167	14
Interest income	(247)	-
Net pension cost	**$126**	**$18**

The estimation of post-retirement benefit obligations involves the use of judgment for matters such as discount rate, employee service periods, compensation escalation rates, expected retirement ages of employees, mortality rates, expected health-care costs and other variable factors. These estimates determined by management with the assistance of independent actuaries. The significant weighted average actuarial assumptions used to determine our statement of financial position date post-retirement assets and liabilities and our post-retirement benefit plan expenses are as follows:

Pension and other postretirement benefit assumptions	Pension	Postretirement
Benefit obligations:		
Discount rate	2.94% to 3.06%	2.90%
Future compensation rate increases	2.50%	-
Net periodic benefit cost assumptions:		
Discount rate	2.52% to 2.65%	2.90%
Compensation rate increases	2.50%	-

Health-care benefit costs, shown under other retirement benefit plans, are funded on a pay-as-you-go basis. The actuarial assumptions for extended health-care costs are estimated to increase 6.5% in year one, grading down by 0.25% per year thereafter.

The impact of a change in certain assumptions used in the estimates of pension and postretirement benefits are as follows:

Sensitivity to a 1% change in certain assumptions	Pension Obligations	Postretirement Obligations
Discount rate increase	($10,613)	($615)
Discount rate decrease	$13,196	$768
Healthcare cost trend rate increase	n/a	$33
Healthcare cost trend rate decrease	n/a	($30)

Weighted average duration of defined benefit obligations	Years
Pension	15.2
Post retirement	13.8

Pension plan asset category allocation	Pension
Cash and cash equivalents	1%
Canadian equity	2%
Foreign equity	8%
Bonds	88%
Real estate	1%

(In thousands of Canadian dollars unless otherwise stated)

Fair value of plan assets as of September 25, 2021	**100%**

The next regulatory prescribed actuarial valuation date for the defined benefit plans is December 31, 2022. Contributions to the defined benefit pension plans in 2022 based on the most recent actuarial reports are expected to amount to $804.

Defined Contribution Plan

New participants in the Company's pension plans are enrolled in the defined contribution plans. Under the defined contribution plans, the Company is required to make contributions to the plan equal to 5% of the member's remuneration for the pay period.

11. CREDIT FACILITIES

The Company's debt is as follows:

	September 25, 2021
Asset backed revolving loan	$-
Term loan - senior secured term credit facility of $US100 million	126,800
Total principal outstanding	126,800
Current portion of long term debt	(6,340)
Gross amount of long term debt	**120,460**
Unamortized deferred finance charges	(11,313)
Long term debt	**$109,147**

Contractual minimum principal repayments, exclusive of any repayments under the senior secured term loan that are due during the remainder of 2021, the next five years and thereafter are as follows:

Remainder of 2021	$1,585
2022	6,340
2023	6,340
2024	6,340
2025	106,195
Total	**$126,800**

Asset Backed Revolving Loan

On August 28, 2021, the Company closed a $65 million asset-backed, revolving loan (the "ABL") with a term of three years. The facility bears a variable interest rate (based on LIBOR, Bankers Acceptances, or Royal Bank of Canada prime rate) plus an applicable premium which varies based on the amount of borrowing base availability remaining. Amounts available to be drawn on the facility are subject to a borrowing base calculation that is based on specified percentages of eligible accounts receivable and inventories, as defined in the ABL agreement. The facility is secured by first-priority security interests in inventory, accounts receivable, cash, deposit accounts and securities accounts.

The ABL agreement requires the Company to meet a fixed charge coverage ratio once the availability under the ABL drops below a certain threshold. The fixed charge coverage ratio cannot be less than 1:1 and is calculated on a trailing twelve-month basis, pro-rated for shorter periods. As of September 25, 2021, the Company had not drawn on the ABL, other than $8.5 million of outstanding letters of credit issued under the facility, and accordingly was not required to calculate a fixed charge coverage ratio as of September 25, 2021.

The ABL agreement also contains various customary affirmative covenants and restrictive covenants that limit the Company's ability to undertake certain transactions without the consent of the lender including, creating liens, incurring indebtedness, making investments and acquisitions, engaging in mergers and other fundamental changes, making dispositions, making restricted payments, including dividends and distributions and consummating transactions with affiliates. Additionally, the ABL agreement contains customary events of default (subject, in certain cases, to customary grace or cure periods), including, without limitation, payment defaults, breach of covenant defaults, bankruptcy defaults, judgment defaults, defaults under certain other indebtedness and changes in control. As of September 25, 2021, the Company was in compliance with all covenants under this facility.

In connection with entering into the ABL agreement and through September 25, 2021, the Company incurred and capitalized fees totaling $2.0 million which are disclosed separately as a deferred financing costs on the statement of financial position. In the three and nine-month periods ended September 25, 2021, $0.1 million of deferred financing costs were amortized relating to the ABL.

Term Loan - Senior Secured Term Credit Facility

On August 30, 2021, the Company closed a US$100 million (CAD$126.1 million at closing) senior secured term credit facility (the "Term Loan") with a term of four years. The Term Loan bears interest at a fixed interest rate of 10% until a referenced variable rate (based on LIBOR, Federal Funds Rate, or US Prime Rate) exceeds certain thresholds, at which time the interest rate becomes variable. The threshold rate for a LIBOR rate loan, above which the interest rate becomes variable is 2% and for loans based on the Federal Fund Rate or US Prime Rate the threshold rate is 3%. As at September 25, 2021, the variable rates were below the thresholds rates. The Company is required to make quarterly payments of principal of US$1.25 million plus interest and the balance of the principal is due upon maturity. Additional principal repayments will be required of up to 75% of excess cash flow (as defined in the credit agreement) annually. In addition, there are mandatory payment provisions, plus an applicable premium, upon the occurrence of certain events including proceeds from the sale of assets and proceeds from equity and debt financing. The facility is secured by a first priority security interest in all assets of the Company, except for inventory, accounts receivable, cash, deposit accounts and securities accounts for which they have second priority

The Term Loan includes two financial covenants that must be measured quarterly and that are based on a trailing 12-months period of operating results for the acquired assets; a maximum leverage ratio and a minimum fixed charge coverage ratio each as defined in the facility agreement. In addition, the Company is also required to maintain a minimum liquidity of USD$10 million comprising cash and availability under the ABL.

The Term Loan agreement also contains various customary affirmative covenants and restrictive covenants that limit the Company's ability to undertake certain transactions without the consent of the lender including: creating liens; incurring indebtedness; making investments and acquisitions; engaging in mergers and other fundamental changes; making dispositions; making certain payments, including dividends and distributions and consummating transactions with affiliates. Additionally, the facility contains customary events of default (subject, in certain cases, to customary grace or cure periods), including, without limitation, payment defaults, breach of covenant defaults, bankruptcy defaults, judgment defaults, defaults under certain other indebtedness and changes in control.

As of September 25, 2021, the Company was in compliance with all covenants under this facility.

12. CONVERTIBLE DEBENTURES

On October 22, 2020, the Company completed a non-brokered Private Placement financing of 2,000,000 Units at a purchase price of $0.50 per Unit and of 4,000 Convertible Debentures at a purchase price of $1,000 per Convertible Debentures, for aggregate gross proceeds of $5 million.

(In thousands of Canadian dollars unless otherwise stated)

Each Convertible Debenture was secured and had a maturity date of two years from the date of issuance. The Convertible Debentures bore interest at a rate of 4% per annum until the completion of a Qualified Investment (as defined below) and 2% per annum thereafter. If, prior to the maturity date, the Company closed an investment in excess of $25 million (a "Qualified Investment") the principal amount of each Convertible Debenture, plus accrued interest, would automatically convert at maturity into of one common share and one warrant (a "Unit) at a price of $0.50 per Unit (provided that the term of any Warrant issued in connection therewith will be limited to 5 years from the date of issuance of the Convertible Debenture) to the extent that the issuance of the common shares issuable on conversion of the Convertible Debentures and exercise of the associated Warrants did not result in the holder thereof holding 20% or more of issued and outstanding common shares of the Company. On June 24, 2021, the Convertible Debenture was amended, following shareholder approval, so that it could be converted into Units, at the option of the holders, without regard for the 20% restriction previously mentioned.

Upon initial recognition, the Convertible Debentures were accounted for as compound financial instruments with a liability and an equity component representing the conversion feature. The proceeds were allocated between the liability and equity component based on their relative fair values. The initial fair value of the liability of $3.7 million was determined using a discount cash flow model and a discount rate of 4%, with $0.3 million allocated to the equity component. On June 24, 2021, all of the outstanding Convertible Debentures were converted into Units at a price of $0.50 per Unit and the majority of accrued interest was paid. As a result, the carrying value of the Convertible Debenture was derecognized and the issuance of Units was recognized in shareholders' equity (Note 14. Shareholders' Equity).

The changes in the carrying value of the liability component are as follows:

	Carrying Value
As of December 31, 2020	**$3,702**
Accretion of discount	70
Conversion of debentures	(3,772)
As of September 25, 2021	**$-**

13. TAX PROVISION

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. No temporary differences were recognized as deferred income tax assets or liabilities as the deferred tax assets related to losses in the period are expected to more than offset deferred tax liabilities related to temporary differences between the tax basis and accounting and accounting carrying amounts of assets and liabilities and no net deferred tax asset has been recognized in relation to losses carried forward. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. Previously unrecognized tax assets are recognized to the extent that it has become probable that future taxable profit will support their realization or derecognized to the extent it is no longer probable that the tax assets will be recovered.

14. SHAREHOLDERS' EQUITY

Share Capital

Authorized
- Unlimited number of common voting shares with no par value.
- 100,000,000 preferred shares with no par value, none of which are outstanding for the reporting periods presented.

Issued and outstanding

(In thousands of Canadian dollars unless otherwise stated)

Changes to common shares and share capital issued and outstanding are as follows:

	September 25, 2021		December 31, 2020	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Outstanding, beginning of period	**23,810,626**	**$38,362**	**21,810,626**	**$37,590**
Issued in connection with:				
Conversion of debentures	8,000,000	4,075	-	-
Exercise of options	2,206,000	1,449	-	-
Rights offering	111,665,880	167,499	-	-
Exercise of warrants	3,205,333	1,923	-	-
Rayonier Asset Acquisition consideration	28,684,433	54,214	-	-
Private placement	-	-	2,000,000	910
Total issued	153,761,646	229,160	2,000,000	910
Outstanding, end of period	**177,572,272**	**267,522**	**23,810,626**	**38,500**
Share issue costs during the period	**-**	**(3,662)**	**-**	**(138)**
Allocation of proceeds to backstop warrants	**-**	**(9,132)**	**-**	**-**
Total share capital	**-**	**$254,728**	**-**	**$38,362**

Convertible Debentures

On June 24, 2021, all of the outstanding Convertible Debentures were converted into 8,000,000 Units at a price of $0.50 per unit with each unit consisting of one common share and one warrant. The issued common shares were recorded at the carrying value of the convertible debenture.

Stock Options

The Company established a rolling stock option plan (the "Plan") effective on June 2, 2003, which was amended June 20, 2012, to reflect the TSX Venture Exchange policies and practices. The maximum number of common shares which can be reserved for issuance under the Plan is 10% of the prevailing issued and outstanding shares of the Company. Stock options granted under the Plan are exercisable for a period no longer than ten years, although the vesting terms, if any and expiry period are at the discretion of the Company's Board of Directors.

Changes to stock options were as follows:

	Number of Options	Weighted Average Exercise Price(1)	Years Before Expiration
Outstanding as of December 31, 2019	**480,000**	**$1.00**	**9.96**
Issued	1,886,000	0.60	6.68
Expired	(160,000)	1.00	-
Outstanding as of December 31, 2020	**2,206,000**	**$0.67**	**6.67**
Exercised	(2,206,000)	$0.67	-
Outstanding as of September 25, 2021	**-**	**$-**	**-**

(In thousands of Canadian dollars unless otherwise stated)

(1) In dollars per option

All outstanding options held by officers and directors were exercised in the period ended September 25, 2021 for cash proceeds of $1.4 million.

Rights Offering

On July 9, 2021, the Company initiated a rights offering (the "Rights Offering"), by issuing three rights ("Rights") for each common share outstanding to shareholders of record at on that date. Each Right entitled the holder to subscribe for one subscription receipt for an exercise price of $1.50 per subscription receipt for a period up to July 30, 2021. Each subscription receipt entitled the holder thereof to receive, upon satisfaction of certain escrow release conditions, and without payment of additional consideration or further action, one common share. On July 30, 2021, the Rights Offering closed resulting in the issuance of 111,665,880 subscription receipts (the "Subscription Receipts") for gross proceeds of $167,499 which was deposited in escrow pending the completion of the escrow release conditions, primarily the completion of the Rayonier Asset Acquisition discussed in note 4.

On August 28, 2021, each Subscription Receipt was automatically exchanged, without payment of additional consideration or further action by the holders thereof, for a total of 111,665,880 common shares of the Company.

Warrants

Changes in outstanding common share purchase warrants were as follows:

	Number of Warrants	Weighted Average Exercise Price[(1)]	Carrying Amount in reserves
Outstanding as of December 31, 2019	**-**	**$ -**	**$ -**
Issued in private placement of Units	2,000,000	$0.6000	89
Expired	-	-	-
Exercised	-	-	-
Outstanding as of December 31, 2020	**2,000,000**	**$0.6000**	**89**
Issued upon conversion of debentures	8,000,000	$0.6000	-
Exercised	(3,205,334)	($0.6000)	(89)
Adjustments as a result of anti-dilution provisions:			
Number of warrants subject to adjustment	(6,794,666)	($0.6000)	-
Warrants outstanding after adjustment	16,060,118	$0.2538	-
Issued in connection with Rights Offering	15,692,500	$3.1800	9,132
Outstanding as of September 25, 2021	**31,752,618**	**$ 1.7000**	**$9,132**

(1) In dollars per common share

On July 2, 2021, 3,205,334 warrants were exercised for proceeds of $1.8 million.

As a result of the Rights Offering closing on July 30, 2021, anti-dilution provisions were triggered for warrants outstanding at the time of closing. These warrants had been issued as part of the exchange of the convertible notes to Units consisting of common shares and warrants. By triggering the anti-dilution provisions, the number of warrants outstanding increased to 16,060,118 with a new exercise price of $0.2538. These warrants expire October 22, 2025.

(In thousands of Canadian dollars unless otherwise stated)

In consideration for providing a backstop commitment in connection with the Rights Offering, on July 30, 2021, Senvest Management, LLC (together with its affiliates and funds of which Senvest Management, LLC acts as investment manager, the "Standby Purchaser") was issued 15,692,500 warrants to acquire Common Shares for a period of five years at an exercise price of $3.18. The Standby Purchaser has been granted nomination rights in respect of one independent director for so long as it beneficially holds at least 5% of the issued and outstanding Common Shares of the Company. In addition, registration rights were granted to the Standby Purchaser, whereby it can require the Company to file a prospectus to qualify for trading the Common Shares issuable under the warrants, for so long as it holds at least 15% of the issued and outstanding Common Shares.

The issuance date fair value of the backstop warrants was determined using the Black-Scholes model with the following inputs:

Warrant Valuation	Inputs
Expected life	5 years
Exercise price	$3.18
Volatility	33%
Underlying price of common share on the grant date	$2.57
Risk free rate	0.81%

Rayonier Asset Acquisition Consideration

On August 28, 2021, as part of the Rayonier Asset Acquisition, the Company issued 28,684,433 common shares, representing and acquisition date fair value of $54.2 million as part of the total consideration for the assets acquired.

Private Placement

On October 22, 2020, the Company completed a non-brokered Private Placement financing of 2,000,000 Units at a purchase price of $0.50 per Unit and of 4,000 Convertible Debentures at a purchase price of $1 thousand per Convertible Debenture (see Note 12. Convertible Debentures), for aggregate gross proceeds of $5,000. Each Unit is comprised of one common share and one common share purchase warrant of the Company (the "Warrant"). Each Warrant entitles the holder thereof to purchase one common share at a purchase price of $0.60 until the date that is five years after the date that the Warrant is issued. Each Unit is immediately separable into one common share and one warrant upon issuance.

The transaction was accounted for as a compound financial instrument in accordance with IAS 32. The proceeds were allocated between the common shares and the warrants based on their relative fair values as outlined below. The fair value of the common shares was based on the market value as of the date of issuance of the units. The fair value of the warrants was determined using the Black-Scholes model with the following inputs:

Warrant Valuation	Inputs
Expected life	5 years
Exercise price	$0.60
Volatility	10%
Underlying price of common share on the grant date	$0.60
Risk free rate	0.39%

Following the private placement, two of the subscribers to the private placement became directors of the Company. The two directors subscribed for, in aggregate, 3.6 million of the convertible debentures and 1,800,000 Units.

Loss Per Share

The numerators and denominators of basic and diluted loss per share for the periods ended September 25, 2021, and September 30, 2020 are as follows:

(In thousands of Canadian dollars unless otherwise stated)

	Three months ended		Nine months ended	
	September 25, 2021	**September 30, 2020**	**September 25, 2021**	**September 25, 202**
Net loss	(\$13,486)	(\$354)	(\$17,572)	(\$722)
Basic weighted average number of common shares outstanding - denominator	82,463,939	21,810,626	43,105,470	21,810,626
Diluted weighted average number of common shares outstanding - denominator	82,463,939	21,810,626	43,105,470	21,810,626
Basic and diluted loss per share	**(\$0.16)**	**(\$0.02)**	**(\$0.41)**	**(\$0.03)**

In the periods when net losses are incurred, no impact of dilutive securities is included in the calculation of diluted weighted average number of common shares outstanding.

There were no shareholder dividends declared during the nine-month period ended September 25, 2021 and September 30, 2020.

15. RELATED PARTY TRANSACTIONS

Management Services Agreements

The Company's former Chief Executive Officer was engaged as a contractor pursuant to a management service agreement effective January 31, 2019. The initial term was for one year and was automatically renewed for six-month terms unless terminated by the Company. Mr. Swets was paid US\$50.0 thousand at the beginning of each renewal period, plus the Company also paid US\$1.7 thousand per month for administrative support and US\$2.5 thousand per month as reimbursement of office expenses pursuant to the Swets MSA.

The Company's Chief Financial Officer, is engaged as a contractor pursuant to a consulting contract effective December 14, 2020. Under the terms of the consulting contract, the Chief Financial Officer is paid a fee of \$20 thousand per month until terminated, which can be done by either party with 60 days' notice.

Pursuant to a management services agreement effective March 1, 2019, Mr. Hassan Baqar was engaged as a contractor to provided services to 1347 Investors LLC. Under the terms of the agreement, Mr. Baqar is paid US\$2.1 thousand per month plus reimbursement for reasonable out-of-pocket expenses. These services were no longer utilized post the Rayonier Asset Acquisition.

A company controlled by one of the Company's directors provides management services pursuant to a management service agreement effective January 31, 2019. Pursuant to the agreement, the Company paid on a monthly basis; (i) a fee of US\$10.4 thousand (ii) US\$0.8 thousand for administrative support, and (iii) US\$1 thousand as reimbursement of office expense. These services were no longer utilized post the Rayonier Asset Acquisition.

A company controlled by one of the Company's directors provided finance, information technology and human resource services leading up to and post the Rayonier Asset Acquisition. The amount paid for these services were a flow through of costs with no mark-up.

The following is a summary of the amount of expense recognized in the financial statements for the above transactions:

	Nine Months Ended September 25, 2021	**Nine Months Ended September 30, 2020**
Fees and stock options expense incurred for directors	69	47
Fees incurred for services – officers and companies controlled by officers	508	358

(In thousands of Canadian dollars unless otherwise stated)

Total	**577**	**405**

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As of September 25, 2021, the Company's financial instruments, categorization and values:

	Category	Carrying and fair value
Cash and cash equivalents	Amortized cost	$33,778
Accounts receivable, net	Amortized cost	$35,599
Accounts payable and accrued liabilities	Amortized cost	$49,516
Long-term debt	Amortized cost	$115,487
Lease liabilities	Amortized cost	$3,492

The fair value approximates the carrying value due to the short-term nature of the financial instruments. Long term debt fair value approximates its carrying value due to the short period between initial recognition and period end.

The Company's financial instruments expose the Company to credit, liquidity and market risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash deposits and receivables from customers.

The Company's maximum exposure to credit risk attributable to cash deposits is $33.8 million (December 31, 2020 - $5.3 million). The Company holds these deposits with a Schedule 1 financial institution.

The Company's exposure to credit risk with respect to accounts receivable is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. The Company does not require specific credit guarantees for its customers and mitigates the risk of potential losses through the active monitoring of its receivables, considering past experience with its customer base, current economic conditions and any known specific customer issues.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of expected credit losses. A $0.2 million reserve in respect of doubtful accounts was recorded as at September 25, 2021.

The carrying amount of accounts receivable of $35.6 million represents the maximum credit exposure for its accounts receivables at September 25, 2021.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity to fulfill its obligations when due and monitors cash flow requirements daily and projections weekly. In addition to the Company's cash and cash equivalent balances, it has access to a $65 million Revolving Asset Backed Loan facility with a syndicate of Canadian banks. The Company can drawdown on the facility based on a prescribed percentage of accounts receivable and its inventory carrying value, less reserves. The facility matures on August 28, 2024. The facility was undrawn at quarter end except for open letters of credit of $8,491 which reduces availability by the same amount.

(In thousands of Canadian dollars unless otherwise stated)

The estimated cash payments due in respect of contractual and legal obligations including debt principal payments and capital commitments are summarized as follows:

	Up to one year	1-2 years	2-3 years	4-5 years	After 5 years	Total
Accounts payable	$49,516	$-	$-	$-	$-	$49,516
Other liabilities	11,502	-	-	-	-	11,502
Lease liabilities	1,339	1,075	591	254	518	3,777
Long term debt	6,340	6,340	6,340	107,780	-	126,800
Commitments	603	-	-	-	-	603
Total	**$69,300**	**$7,415**	**$6,931**	**$108,034**	**$518**	**$192,198**

Under the term loan agreement, additional principal repayments will be required of up to 75% of excess cash flow (as defined in the credit agreement) annually. Also, there are mandatory payment provisions, plus the applicable premium, upon the occurrence of certain events including proceeds from the sale of assets and proceeds from equity and debt financing. The Company has made a commitment to third party to complete the construction of a kiln at one of its facilities.

Market Risk

The Company is exposed to market risk primarily through changes in commodity prices, the US dollar to Canadian dollar exchange rate and interest rates.

Commodity Prices

The Company's products are commodities that are widely available from other producers; because these products have few distinguishing qualities from producer to producer, competition is based primarily on price, which is determined by supply relative to demand. The Company attempts to minimize the economic impact of these changes through continuously looking for cost reductions in its operations and employing flexible manufacturing schedules that can increase or decrease in response to supply and demand fluctuations. The Company currently does not hedge its exposure to commodity prices.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has a secured Term Loan and a revolving ABL facility which creates interest rate risk exposure for the Company. The Term Loan bears interest at a fixed interest rate until a referenced variable rate (based on LIBOR, Federal Funds Rate, or US Prime Rate) exceeds a certain threshold, at which time the interest rate becomes variable. The threshold rate for a LIBOR rate loan, above which the interest rate becomes variable is 2% and for loans based on the Federal Fund Rate or US Prime Rate the threshold rate is 3%. As at September 25, 2021, the variable threshold rates were below the threshold.

A 100 basis point increase in the interest rate on the secured term debt loan would increase the net loss in the statement of profit and loss by approximately $125 thousand. Similarly, a 100 basis point reduction in the interest rate on the secured term debt loan would decrease the net loss in the statement of profit and loss by approximately $125 thousand.

No amounts were drawn on the revolving ABL facility as of September 25, 2021.

Currency Risk

The Company is exposed to foreign exchange risk on revenues and expenditures denominated in foreign currencies, principally US dollars. The Company's US dollar denominated sales accounts for a significant volume of its sales. Except for duties and Term Loan interest and principal payments, a significant volume of its expenditures are in Canadian dollars.

(In thousands of Canadian dollars unless otherwise stated)

The Company is exposed to currency risk on US dollar cash and cash equivalents, accounts receivable, accounts payable and long-term debt balances.
As of September 25, 2021, the Company's monetary assets and liabilities held in US dollars are as follows:

	US Dollar thousands
Cash	$ 10,114
Accounts receivable	3,943
Accounts payable	(4,956)
Other liabilities	(871)
Long term debt	(100,000)
Net monetary liabilities	**($91,770)**

Based on the US$ statement of financial position exposure at September 25, 2021, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 1%, relative to the rate at September 25, 2021, the net loss in the statement of profit or loss would be approximately $1.2 million greater. If the Canadian dollar were to strengthen against the US dollar by 1%, relative to the rate at September 25, 2021, the net loss in the statement of profit or loss would be approximately $1.2 million less.

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain a strong statement of financial position and to continuously improve its cost structure to maintain liquidity throughout commodity price cycle and to support access to additional capital for expansion. The Company defines capital as net debt and shareholder's equity.

	September 25, 2021
Total debt outstanding	$115,487
Less cash and cash equivalents	(33,778)
Net debt	81,709
Shareholders' equity	218,900
Total capital	**$300,609**

The Company manages its capital through detailed operating and capital expenditure budgeting combined with frequent forecasting. The Company's strategic capital expenditure decisions are predicated on adequate cash flow from operations to support those expenditures.

The Company's Secured Term Loan contains restrictive covenants that limit the Company's ability to undertake certain actions without the lenders consent, it also includes the following financial covenant tests performed quarterly: a maximum leverage ratio; a minimum fixed charge coverage ratio and a minimum liquidity requirement, all as defined in the Secured Term Loan agreement. The Company monitors its performance monthly as well as its future performance expectations, adjusting as required, so it remains in compliance with these covenants. The Company was fully in compliance with its Secured Term Loan debt covenants as of September 25, 2021.

18. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in two business segments, Forest Products and Newsprint based on factors that include similarities in products, production processes and economic characteristics. Through its Forest Products segment, the Company manufactures and markets a wide range of forest products for use in residential and commercial construction, including SPF lumber, wood chips and by-products. The Newsprint segment manufactures and markets paper grade products used to print newspapers, advertising materials and other publications. Corporate activities consist primarily of senior management, accounting, information systems, human resources, treasury, tax and legal administrative functions that provide support services to the operating business segment. The Company does not allocate the cost of maintaining these support functions to its operating units. Transactions between segments are at market prices and on standard business terms.

(In thousands of Canadian dollars unless otherwise stated)

Statement of profit and loss for the nine months ended September 25, 2021	**Forest Products**	**Newsprint**	**Corporate**	**Eliminations**	**Total**
Net sales:					
External customers	$22,796	$6,132	$-	$-	$28,928
Intersegment	792	-	-	(792)	-
	$23,588	6,132	-	($792)	$28,928
Operating (loss)	($4,048)	($1,095)	($2,992)	$-	($8,135)

Statement of financial position	**Forest Products**	**Newsprint**	**Corporate**	**Eliminations**	**Total**
Assets	$284,363	$79,382	$49,330	($1,662)	$411,413
Liabilities	$33,472	$9,555	$147,824	$1,662	$192,513

Geographical Sales	**Forest Products**	**Newsprint**	**Corporate**	**Total**
Canada	$15,302	$1,018	$-	$16,320
United States	7,494	5,114	-	12,608
Total Sales	$22,796	$6,132	$-	$28,928