Third quarter of fiscal 2018

For the 13-week and 39-week periods ended September 28, 2018 and September 29, 2017

Interim Condensed Consolidated Financial Statements

Pinnacle.
RENEWABLE HOLDINGS INC.

PINNACLE RENEWABLE HOLDINGS INC.

Interim Condensed Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

As at	Note		September 28, 2018		December 29, 2017
Assets					
Current assets					
Cash and cash equivalents		$	7,276	$	18,908
Accounts receivable	2		30,998		41,253
Inventory	3		19,008		17,709
Other current assets			4,369		3,392
			61,651		81,262
Property, plant and equipment	4		271,076		238,196
Investment in Houston Pellet Limited Partnership	5		9,522		8,916
Other long-term assets			796		51
Deferred income taxes			1,808		-
Goodwill and intangible assets			103,055		105,220
Total assets		$	447,908	$	433,645
Liabilities and Shareholders' Equity					
Current liabilities					
Revolver loan	6	$	3,500	$	22,000
Accounts payable and accrued liabilities			35,828		35,653
Current portion of term debt	6		7,000		6,000
Other current liabilities			6,596		15,977
			52,924		79,630
Term debt	6		184,273		190,813
Shareholders' debentures payable	7		-		88,881
Common and preferred shares classified as liabilities	8		-		25,992
Other long-term liabilities			4,217		3,457
Deferred income taxes			-		9,668
			241,414		398,441
Shareholders' Equity					
Common shares	9		273,966		29,500
Preferred shares			-		28,005
Contributed surplus			3,303		4,332
Equity component of convertible debentures			-		35,213
Deficit			(88,563)		(75,419)
Total equity attributable to owners of the Company			188,706		21,631
Non-controlling interest	10		17,788		13,573
Total equity			206,494		35,204
Total liabilities and shareholders' equity		$	447,908	$	433,645

Contingencies (note 18)

Subsequent events (note 21)

See accompanying notes to the interim condensed consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin	*s/Hugh MacDiarmid*
Director, Gregory Baylin	Director, Hugh MacDiarmid

PINNACLE RENEWABLE HOLDINGS INC.

Interim Condensed Consolidated Statements of Profit (Loss) and Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Note	13-week periods ended		39-week periods ended	
		September 28, 2018	**September 29, 2017**	**September 28, 2018**	**September 29, 2017**
Revenue	20	**$ 87,606**	$ 82,366	**$ 243,712**	$ 219,769
Costs and expenses					
Production		**57,222**	51,628	**159,635**	141,037
Distribution		**12,360**	11,568	**33,528**	28,496
Selling, general and administration		**5,374**	4,222	**18,856**	10,921
Amortization of equipment and intangible assets		**6,719**	5,365	**17,458**	16,539
		81,675	72,783	**229,477**	196,993
Profit before undernoted items		**5,931**	9,583	**14,235**	22,776
Equity earnings in Houston Pellet Limited Partnership	5	**(233)**	(544)	**(906)**	(1,126)
(Gain) loss on disposal of property, plant and equipment		**(59)**	366	**213**	571
(Gain) loss on B&D common shares	8	**-**	6,025	**(3,563)**	6,025
Loss on conversion of debentures into shares	7	**-**	-	**21,881**	-
Finance costs excluding shareholder debentures	12	**4,360**	3,302	**4,783**	9,013
Finance costs on shareholder debentures	12	**-**	3,167	**-**	9,118
Other income		**(154)**	(272)	**(516)**	(773)
Plant impairment loss and curtailment costs		**47**	3,571	**155**	4,573
		3,961	15,615	**22,047**	27,401
Net profit (loss) before income taxes		**1,970**	(6,032)	**(7,812)**	(4,625)
Income tax (recovery) expense					
Current		**-**	-	**-**	-
Deferred	13	**454**	(2)	**(3,058)**	363
		454	(2)	**(3,058)**	363
Net profit (loss) and comprehensive income (loss) for the period		**$ 1,516**	$ (6,030)	**$ (4,754)**	$ (4,988)
Net profit (loss) and comprehensive income (loss) attributable to:					
Owners of the Company		**$ 1,184**	$ (6,371)	**$ (5,231)**	$ (5,361)
Non-controlling interests	10	**332**	341	**477**	373
		$ 1,516	$ (6,030)	**$ (4,754)**	$ (4,988)
Net profit (loss) per share attributable to owners (Basic and diluted):	14	**$ 0.04**	$ (0.97)	**$ (0.18)**	$ (0.91)
Weighted average of number of shares outstanding (thousands):		**32,974**	6,881	**29,318**	6,881

See accompanying notes to the interim condensed consolidated financial statements

PINNACLE RENEWABLE HOLDINGS INC.

Interim Condensed Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures - Equity Component	Deficit	Non-controlling Interest	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 period	-	-	-	-	-	(5,361)	373	(4,988)
Stock-based compensation (note 11)	-	-	-	65	-	-	-	65
Distribution to non-controlling interest	-	-	-		-	-	(250)	(250)
Balance, September 29, 2017	$ -	$ 29,500	$ 28,005	$ 4,160	$ 35,213	$ (75,543)	$ 11,443	$ 32,778
Balance, December 29, 2017	**$ -**	**$ 29,500**	**$ 28,005**	**$ 4,332**	**$ 35,213**	**$ (75,419)**	**$ 13,573**	**$ 35,204**
Net profit (loss) and comprehensive income (loss) for the period	-	-	-	-	-	(5,231)	477	(4,754)
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 period	1,115	-	-	(464)	-	-	-	651
Stock-based compensation (note 11)	-	-	-	1,032	-	-	-	1,032
Dividend declared during the period	-	-	-	-	-	(7,913)	-	(7,913)
Distribution to non-controlling interest	-	-	-	-	-	-	(625)	(625)
Investment by non-controlling interest	-	-	-	-	-	-	4,363	4,363
Balance, September 28, 2018	**$ 273,966**	**$ -**	**$ -**	**$ 3,303**	**$ -**	**$ (88,563)**	**$ 17,788**	**$ 206,494**

See accompanying notes to the interim condensed consolidated financial statements

PINNACLE RENEWABLE HOLDINGS INC.

Interim Condensed Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Note	13-week periods ended		39-week periods ended	
		September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Cash provided by (used in)					
Operating activities					
Net profit (loss)		$ **1,516**	$ (6,030)	$ **(4,754)**	$ (4,988)
Financing costs, net		**4,360**	6,469	**4,783**	18,131
Items not involving cash:					
Loss on conversion of debentures into shares	7	**-**	-	**21,881**	-
Amortization of property, plant and equipment		**6,001**	4,630	**15,293**	14,353
Amortization of intangible assets		**718**	735	**2,165**	2,186
Equity earnings in Houston Pellet Limited Partnership		**(233)**	(544)	**(906)**	(1,126)
(Gain) loss on disposal of equipment		**(59)**	366	**213**	571
Stock-based compensation	11	**720**	21	**5,099**	65
Inventory write (up) down		**302**	253	**202**	306
Impairment loss on Quesnel plant		**-**	3,245	**-**	3,245
(Gain) loss on Class B and D common shares	8	**-**	6,025	**(3,563)**	6,025
Deferred income tax (recovery) expense	13	**454**	(2)	**(3,058)**	363
Realized (gain) loss on derivatives		**282**	68	**37**	18
Distributions from Houston Pellet Limited Partnership		**150**	224	**300**	674
		14,211	**15,460**	**37,692**	**39,823**
Net change in non-cash operating working capital	15	**(11,923)**	(3,925)	**1,519**	(4,881)
		2,288	**11,535**	**39,211**	**34,942**
Financing activities					
Issuance of revolver loan		**3,500**	12,500	**3,500**	12,500
Repayment of revolver loan		**-**	-	**(22,000)**	(600)
Payment of finance leases		**(192)**	(41)	**(544)**	(147)
Drawings on term debt		**-**	-	**20,000**	3,000
Repayment of term debt		**(4,000)**	-	**(6,000)**	-
Repayment of delayed draw loan		**-**	-	**(20,000)**	-
Repayment of $15M debentures	7	**-**	-	**(28,577)**	-
Share issuance costs		**-**	-	**(5,435)**	-
Proceeds from Initial Public Offering		**-**	-	**70,019**	-
Proceeds from exercise of stock options		**209**	-	**651**	-
Dividend paid during the period		**(4,946)**	-	**(7,913)**	-
Investment from non-controlling interest		**3,450**	-	**4,363**	-
Distributions to non-controlling interest		**(500)**	(250)	**(625)**	(250)
Finance costs paid		**(2,789)**	(1,797)	**(8,619)**	(6,856)
		(5,268)	**10,412**	**(1,180)**	**7,647**
Investing activities					
Purchase of property, plant and equipment	15	**(12,152)**	(16,410)	**(50,163)**	(42,921)
Proceeds from sale of property, plant and equipment		**59**	25	**174**	25
		(12,093)	**(16,385)**	**(49,989)**	**(42,896)**
Foreign exchange gain (loss) on cash position held in foreign currency		**4**	(119)	**326**	(210)
Increase (decrease) in cash and cash equivalents		**(15,069)**	**5,443**	**(11,632)**	**(517)**
Cash and cash equivalents, beginning of period		**22,345**	6,152	**18,908**	12,112
Cash and cash equivalents, end of period		$ **7,276**	$ **11,595**	$ **7,276**	$ **11,595**

See accompanying notes to the interim condensed consolidated financial statements

1. Basis of preparation

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".

The interim condensed consolidated financial statements for the 13-week and 39-week periods ended September 28, 2018 and September 29, 2017 (the "interim financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of the Company and its subsidiary entities.

These interim financial statements do not include all the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements, and should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the year ended December 29, 2017 (the "annual financial statements"). Except as described below, the accounting policies applied to these interim financial statements follow the same policies applied in the December 29, 2017 annual financial statements.

Estimates and judgments made that affect these interim financial statements are the same as applied and disclosed in the December 29, 2017 annual financial statements.

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.

The interim financial statements were authorized for issue by the Board of Directors on November 5, 2018.

Accounting standards adopted in 2018

The following standards issued by the IASB, effective for the current financial year have been implemented while preparing quarterly financials.

IFRS 15 - Revenue from contracts with customers

The Company has adopted IFRS 15 *Revenue from Contracts with Customers*, which 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 effective for annual periods beginning on or after January 1, 2018. The Standard establishes a single, principles based five-step model to be applied to all contracts with customers and provide useful information to users of financial statements about the nature, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The adoption of IFRS 15 does not have a material impact on these interim financial statements, other than in the form of additional disclosures included herein.

1. Basis of preparation (continued)

IFRS 15 - Revenue from contracts with customers (continued)

The Company has updated its accounting policies for revenue recognition to reflect the qualitative changes of the new standard, as set out below.

Under IFRS 15, 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.

IFRS 9 - Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018. This standard 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.

(Amounts in thousands of Canadian dollars unless otherwise stated)

1. Basis of preparation (continued)

IFRS 9 - Financial instruments (continued)

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.

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*. The Standard introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. The Standard is effective for annual periods beginning on or after January 2019. The Company is using modified retrospective approach for transition. The extent of the impact of adoption of IFRS 16 has not yet been fully determined, but the initial analysis of impact on the statement of financial position is an increase in assets in the form of right-to-use assets and in liabilities is between $25,000 to $30,000. The discount rate used is based on the Canadian Marketable Bond average yields for 5-10 year rate plus risk premium. A 1% change in rate would increase or decrease the amount of initial recognition by approximately $1,000. The Company expects to complete its analysis prior to releasing its annual consolidated financial statements and will provide further disclosures in those statements.

2. Accounts Receivable

As at		**September 28, 2018**		December 29, 2017
Trade accounts receivable	$	**12,900**	$	14,503
Other receivables		**17,416**		25,965
Amounts receivable from related parties (note 16)		**682**		785
	$	**30,998**	$	41,253

Included in other receivables is $13,657 (December 29, 2017 - $14,590) of accrued sales which were invoiced in the month subsequent to period end.

(Amounts in thousands of Canadian dollars unless otherwise stated)

3. Inventory

As at		September 28, 2018		December 29, 2017
Wood pellets	$	**7,475**	$	6,479
Fibre		**6,295**		6,764
Supplies and spare parts		**5,238**		4,466
	$	**19,008**	$	17,709

The above inventory balances include adjustments to measurement estimates and to net realizable values which resulted in write-ups and write-downs. For the 39-week period ended September 28, 2018, fibre inventory reflects a write-up of $314 (September 29, 2017 – write-down of $607). The provision related to wood pellets as at September 28, 2018 was $516 (December 29, 2017 - $nil). These adjustments are included in production costs in net profit (loss).

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

At September 28, 2018, PP&E includes $22,227 (December 29, 2017 - $8,767) for construction 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.

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

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

Investment in Houston Pellet LP		**30%**		30%
As at		**September 28, 2018**		December 29, 2017
Current assets	**$**	**20,127**	$	17,616
Non-current assets		**7,882**		8,544
Current liabilities		**(2,345)**		(2,516)
Net assets	**$**	**25,664**	$	23,644
Company's share of net assets		**7,699**		7,093
Goodwill		**1,823**		1,823
Investment in Houston Pellet LP	**$**	**9,522**	$	8,916

		13-week periods ended				**39-week periods ended**		
		September 28, 2018		September 29, 2017		**September 28, 2018**		September 29, 2017
Revenue	**$**	**7,331**	$	8,956	**$**	**24,985**	$	23,767
Expense		**(6,193)**		(6,303)		**(20,909)**		(19,004)
Amortization		**(360)**		(839)		**(1,056)**		(1,008)
Net Income	**$**	**778**	$	1,814	**$**	**3,020**	$	3,755
Company's share of Net Income	**$**	**233**	$	544	**$**	**906**	$	1,126

(Amounts in thousands of Canadian dollars unless otherwise stated)

6. Revolver loan and term debt

As at		**September 28, 2018**		December 29, 2017
Revolver loan (a)	$	**3,500**	$	22,000
Term loan (b)		**194,000**		180,000
Delayed draw term loan (c)		**-**		20,000
	$	**197,500**	$	222,000
Less:				
Current portion		**(7,000)**		(6,000)
Revolver loan shown as current		**(3,500)**		(22,000)
Deferred financing costs		**(2,727)**		(3,187)
	$	**184,273**	$	190,813

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

During the 13-week and 39-week periods ending September 28, 2018, the Company made scheduled repayments of the term loan of $4,000 and $6,000, respectively (13-week and 39-week periods ending September 29, 2017 – $nil). As at September 28, 2018, the $194,000 term loan was in a Canadian dollar BA loan at 5.30% and the $3,500 revolver loan was in a Canadian dollar BA loan at 6.20%. At December 29, 2017, the $180,000 term loan and the $22,000 revolver loan were in Canadian dollar Prime loans at 5.70% and the $20,000 delayed draw term loan was in a Canadian dollar BA loan at 4.86%. At September 28, 2018, the Company had issued letters of credit totaling $1,393 (December 29, 2017 - $530).

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 September 28, 2018 and December 29, 2017, the Company was in compliance with all debt covenants.

The debt is secured by a first-ranking security interest on all present and after-acquired assets of the Company's subsidiary, Pinnacle Renewable Energy Inc.

(Amounts in thousands of Canadian dollars unless otherwise stated)

7. Shareholders' debentures payable

As at		**September 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

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.

8. Common and preferred share classified as liabilities

As at			**September 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 preferred shares	5,004,000 shares; cost of $5,055		-		5,131
		$	-	$	25,992

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.

(Amounts in thousands of Canadian dollars unless otherwise stated)

9. 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

Upon closing of the IPO, the Company's authorized share capital consisted of the following:

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

As at September 28, 2018, there were 33,003,713 common shares issued and outstanding and no preferred shares issued and outstanding. 32,420 and 1,120,885 common shares were issued on the exercise of stock options during the 13-week and 39-week periods ended September 28, 2018 (note 11) which added $1,115 to common shares at September 28, 2018 resulting in $273,966 for common shares after deducting cumulative share issuance cost of $3,987.

(Amounts in thousands of Canadian dollars unless otherwise stated)

10. Non-controlling Interests

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

Lavington Pellet LP		**25%**		25%
As at		**September 28, 2018**		December 29, 2017
Current assets	**$**	**9,947**	$	8,703
Non-current assets		**38,698**		40,610
Current liabilities		**(3,337)**		(3,650)
Non-current liabilities		**(981)**		(970)
Net assets	**$**	**44,327**	$	44,693
Net assets attributable to NCI	**$**	**11,082**	$	11,173

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Smithers Pellet LP		**30%**		30%
As at		**September 28, 2018**		December 29, 2017
Current assets	**$**	**5,027**	$	1,828
Non-current assets		**22,377**		9,417
Current liabilities		**(5,050)**		(3,245)
Net assets	**$**	**22,354**	$	8,000
Net assets attributable to NCI	**$**	**6,706**	$	2,400
Total Net assets attributable to NCI	**$**	**17,788**	$	**13,573**

		13-week periods ended				**39-week periods ended**		
Lavington Pellet LP		**September 28, 2018**		September 29, 2017		**September 28, 2018**		September 29, 2017
Revenue	**$**	**14,140**	$	13,025	**$**	**36,850**	$	31,378
Net income		**1,395**		1,368		**2,133**		1,494
Net income allocated to NCI	**$**	**349**	$	341	**$**	**533**	$	373

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		13-week periods ended				**39-week periods ended**		
Smithers Pellet LP		**September 28, 2018**		**September 29, 2017**		**September 28, 2018**		September 29, 2017
Revenue	**$**	**-**	$	-	**$**	**-**	$	-
Net loss		**(55)**		-		**(188)**		-
Net loss allocated to NCI	**$**	**(17)**	$	-	**$**	**(56)**	$	-
Total Net income allocated to NCI	**$**	**332**	$	341	**$**	**477**	$	373

(Amounts in thousands of Canadian dollars unless otherwise stated)

11. 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 $30 and $469 in stock-based compensation expense for the 13-week and 39-week periods ended September 28, 2018 (13-week and 39-week periods ended September 29, 2017 – Nil) respectively, 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:

	13-week periods ended				**39-week periods ended**			
	Sept 28, 2018[(1)]		Sept 29, 2017[(1)]		**Sept 28, 2018[(1)]**		Sept 29, 2017[(1)]	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of period	**1,626,911**	**8.09**	2,306,946	6.48	**2,715,376**	**6.63**	2,306,946	6.48
Granted	**-**	**-**	-	-	**-**	**-**	-	-
Exercised	**(32,420)**	**6.48**	-	-	**(1,120,885)**	**6.48**	-	-
Forfeited / cancelled / expired	**-**	**-**	-	-	**-**	**-**	-	-
Outstanding, end of period	**1,594,491**	**8.13**	2,306,946	6.48	**1,594,491**	**8.13**	2,306,946	6.48

(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 13-week and 39-week periods ended September 28, 2018, a total of $209 and $1,007, respectively, in stock-based compensation expense was recognised in relation to the Legacy Plan (13-week and 39-week periods ended September 29, 2017 - $21 and $65, respectively) 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.

(Amounts in thousands of Canadian dollars unless otherwise stated)

11. Stock-based compensation (continued)

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

On July 31, 2018 and September 25, 2018, the Company granted 40,000 and 5,000 options, respectively, which vest annually on the anniversary of the grant date over a period of three to five years. These options expire 10 years from the grant date.

For the 39-week period ended September 28, 2018, the Company has granted 140,000 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	2.06% to 2.43%
Expected life	10 years
Exercise price	$ 13.66 to $ 16.21

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

	13-week periods ended				39-week periods ended			
	Sept 28, 2018[(1)]		Sept 29, 2017[(1)]		**Sept 28, 2018[(1)]**		Sept 29, 2017[(1)]	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of period	**95,000**	14.59	-	-	**-**	**-**	-	-
Granted	**45,000**	15.16	-	-	**140,000**	**14.77**	-	-
Exercised	**-**	-	-	-	**-**	**-**	-	-
Forfeited / cancelled / expired	**-**	-	-	-	**-**	**-**	-	-
Outstanding, end of period	**140,000**	14.77	-	-	**140,000**	**14.77**	-	-

(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 13-week and 39-week periods ended September 28, 2018, a total of $38 and $62, respectively, of stock-based compensation expense (13-week and 39-week periods ended September 29, 2017 - $nil) in relation to options granted under the LTIP was included in selling, general and administration expenses.

(Amounts in thousands of Canadian dollars unless otherwise stated)

11. Stock-based compensation (continued)

ii. Restricted share units

On August 2, 2018, the Company granted 3,609 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 39-week period ended September 28, 2018, the Company granted 271,921 RSUs (39-week period ending September 29, 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	2.30% to 2.40%
Expected life	4.26 to 6.26 years
Exercise price	$nil

For the 13-week and 39-week periods ended September 28, 2018, stock-based compensation expense in relation to RSUs granted under the LTIP was $473 and $4,030 (13-week and 39-week periods ended September 29, 2017 $nil), respectively, and was included in selling, general and administration expenses.

(Amounts in thousands of Canadian dollars unless otherwise stated)

12. Finance costs

a) Finance costs excluding shareholders' debentures

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Interest on revolver loan, term debt and delayed draw loan	**$ 2,365**	$ 1,704	**$ 5,845**	$ 5,400
Fair value (gain)/loss on derivatives	**1,505**	1,025	**(2,043)**	2,237
Realized (gain)/loss on derivatives	**(353)**	195	**(295)**	(260)
Unrealized (gain)/loss on foreign exchange	**354**	-	**(263)**	-
Realized gain on foreign exchange	**(182)**	(58)	**(86)**	(63)
Amortization of deferred financing fees	**162**	149	**491**	447
Other	**509**	287	**1,134**	1,252
	$ 4,360	$ 3,302	**$ 4,783**	$ 9,013

b) Finance costs on shareholders' debentures

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Interest on debentures (note 7)	**$ -**	$ 3,167	**$ -**	$ 9,118
	$ -	$ 3,167	**$ -**	$ 9,118

13. Income taxes

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

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Income tax (recovery) expense at statutory rate - 27% (2017 - 26%)	**$ 532**	$ (1,568)	**$ (2,109)**	$ (1,203)
Decrease related to				
Permanent differences and other	**(78)**	1,566	**(949)**	1,566
	454	(2)	**(3,058)**	363
Classified as				
Current	**-**	-	**-**	-
Deferred	**454**	(2)	**(3,058)**	363
Income tax recovery	**$ 454**	$ (2)	**$ (3,058)**	$ 363

(Amounts in thousands of Canadian dollars unless otherwise stated)

14. Earnings per share

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

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Net profit (loss) for the period attributable to owners	**$ 1,184**	$ (6,371)	**$ (5,231)**	$ (5,361)
Cumulative preferred dividends	**-**	(309)	**(104)**	(928)
	$ 1,184	$ (6,680)	**$ (5,335)**	$ (6,289)
Net profit (loss) per share (Basic and diluted)	**$ 0.04**	$ (0.97)	**$ (0.18)**	$ (0.91)
Weighted average of number of shares outstanding (thousands)	**32,974**	6,881	**29,318**	6,881

For the 39-week period ended September 28, 2018, the Company incurred net losses attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive. The weighted average number of shares for the 13-week and 39-week periods ended September 28, 2018 and September 29, 2017 have been adjusted for Pre-Closing Capital Changes.

15. Supplemental cash flow information

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Accounts receivable	**$ (5,253)**	$ (2,141)	**$ 10,546**	$ 3,481
Inventory	**(3,598)**	(4,058)	**(1,501)**	(4,598)
Other current assets	**(1,453)**	824	**(152)**	1,212
Accounts payable and accrued liabilities	**(852)**	116	**4,770**	(8,180)
Other current liabilities	**(767)**	1,334	**(12,144)**	3,204
Net change in non-cash operating working capital	**$ (11,923)**	$ (3,925)	**$ 1,519**	$ (4,881)

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
PP&E additions during the period	**$ 8,826**	$ 20,297	**$ 46,813**	$ 50,837
PP&E additions from prior period paid during the period	**11,581**	5,142	**11,605**	1,113
PP&E additions in accounts payable & other liabilities	**(8,255)**	(9,029)	**(8,255)**	(9,029)
Purchase of PP&E	**$ 12,152**	$ 16,410	**$ 50,163**	$ 42,921

(Amounts in thousands of Canadian dollars unless otherwise stated)

16. 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 13-week and 39-week periods ended September 28, 2018, the Company paid a monitoring fee to ONCAP of $nil and $50 (13-week and 39-week periods ended September 29, 2017 - $125 and $375, respectively). The monitoring fee has been discontinued upon the closing of the IPO.

Houston Pellet LP

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

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Purchases	$ **7,331**	$ 6,270	$ **22,299**	$ 18,402
Revenue	**1,052**	1,657	**4,085**	4,037
Management fee	**125**	179	**477**	489

As at	**September 28, 2018**	December 29, 2017
Amounts receivable	$ **682**	$ 785
Amounts payable	**3,108**	2,715

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

Lavington Pellet LP

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

	13-week periods ended		39-week periods ended	
	September 28, 2018	September 29, 2017	**September 28, 2018**	September 29, 2017
Purchases	**$ 14,139**	$ 13,025	**$ 36,849**	$ 31,378
Revenue	**172**	364	**217**	503

As at	**September 28, 2018**	December 29, 2017
Amounts receivable	**$ 454**	$ 491
Amounts payable	**7,662**	4,839

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

(Amounts in thousands of Canadian dollars unless otherwise stated)

16. Related parties (continued)

Smithers Pellet LP

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

As at		**September 28, 2018**		December 29, 2017
Amounts receivable	**$**	**135**	$	-
Amounts payable		**-**		-

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

17. Financial instruments

Cash, accounts receivable, accounts payable and accrued liabilities and are classified as amortized cost and their fair values approximate their carrying values in these financial instruments due to their short terms to maturity. The revolver loan and term loan are classified as amortized cost and their fair values approximate their carrying values in these financial instruments as these debt facilities are repriced to short-term money market instruments.

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 7).

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 8).

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

Balance at December 29, 2017	$	**20,861**
Net change in fair value		(3,563)
Conversion to common shares		(17,298)
Balance at September 28, 2018	$	**-**

(Amounts in thousands of Canadian dollars unless otherwise stated)

17. Financial instruments (continued)

The Company's US dollar forward sales contracts are derivative instruments and are carried at fair value through net profit (loss) and are classified as Level 1 in the fair value hierarchy. The outstanding notional amounts of the US dollar forward contracts, their contractual maturities and fair values are as follows:

	Notional amount	Average forward rate	Less than 12 months	More than 12 months	Fair value asset (liability)
As at September 28, 2018	$ 58,050	1.2554	$ 25,625	$ 32,425	$ 1,569
As at December 29, 2017	$ 73,564	1.259	$ 9,064	$ 64,500	$ (474)

For the 13-week period ended September 28, 2018, the Company recognised a loss of $1,152 (13-week period ended September 29, 2017 loss - $1,220) and for 39-week period ended September 28, 2018, the Company recognised a gain of $2,338 (39-week periods ended September 29, 2017 loss - $1,977) on its derivative financial instruments in its net profit (loss).

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

As at	**September 28, 2018**	December 29, 2017
Other current assets	**$ 824**	$ -
Other long-term assets	**745**	-
Other current liabilities	**-**	**256**
Other long-term liabilities	**-**	**218**
	$ 1,569	**$** 474

18. 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.

(Amounts in thousands of Canadian dollars unless otherwise stated)

19. Economic dependence

The Company has certain European and Asian customers whose individual revenue represents 10% or greater of the Company's total revenue. For the 39-week period ended September 28, 2018, three of these customers represented 83.43% of the Company's total revenues. For the 39-week period ended September 29, 2017, three of these customers represented 88.91% 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.

20. Revenue from contracts

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

		13-week periods ended				39-week periods ended		
		September 28, 2018		September 29, 2017		**September 28, 2018**		September 29, 2017
Finished wood pellets	**$**	**85,783**	$	81,176	**$**	**238,210**	$	214,992
Port Services		**1,823**		1,190		**5,502**		4,777
	$	**87,606**	$	82,366	**$**	**243,712**	$	219,769

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

		13-week periods ended				39-week periods ended		
		September 28, 2018		September 29, 2017		**September 28, 2018**		September 29, 2017
Europe	**$**	**55,650**	$	69,969	**$**	**175,647**	$	195,397
Asia		**28,314**		9,245		**57,627**		13,900
North America		**3,642**		3,152		**10,438**		10,472
	$	**87,606**	$	82,366	**$**	**243,712**	$	219,769

21. Subsequent events

On October 15, 2018, the Company closed the acquisition of a 70% interest in an operating industrial wood pellet production facility located in Aliceville, Alabama (the "Aliceville Facility") from The Westervelt Company ("Westervelt"), a diversified land resources company, at a purchase price of approximately U.S. $37.1 million. Westervelt retains a 30% interest in the Aliceville Facility. The Company funded the purchase through a draw on its credit facility and cash on hand.