Fiscal 2018

For the 52-week periods ended December 28, 2018 and December 29, 2017

February 21, 2019

Management's Discussion & Analysis

Pinnacle.

RENEWABLE ENERGY INC.

(formerly Pinnacle Renewable Holdings Inc.)

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated February 21, 2019 provides information concerning the financial condition and results of operations of Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings Inc. and, collectively with its consolidated subsidiaries, the "Company", "Pinnacle", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial and operating results for the 13-week period ended December 28, 2018 ("Q4 2018") and the 52-week period ended December 28, 2018 ("Fiscal 2018"). This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for Fiscal 2018 (the "Consolidated Financial Statements"), available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com, or the Company's website at www.pinnaclepellet.com.

Basis of Presentation

Our audited annual consolidated financial statements and accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. We manage our business on the basis of one operating and reportable segment.

All references in this MD&A to "Fiscal 2016" are to our 53-week period ended December 30, 2016, references to "Fiscal 2017" are to our 52-week period ended December 29, 2017, all references to "Fiscal 2019" are to our 52-week period ending December 27, 2019, all references to "Fiscal 2020" are to our 53-week period ending December 25, 2020, and all references to "Fiscal 2021" are to our 52-week period ending December 31, 2021. All references in this MD&A to "Q3 2018" are to our 13-week period ended September 28, 2018, and all references to "Q4 2017" are to our 13-week period ended December 29, 2017. Our fiscal year is the 52 or 53-week period ending the last Friday of the calendar year. The last 53-week fiscal year occurred in Fiscal 2016.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Some of the specific forward-looking information contained herein include, but are not limited to, statements with respect to: our expectations regarding growth in biomass-based fuel sources within the European and Asian power generating portfolio; growth in global demand for wood pellets; our expectations regarding accretive free cash flow per share on an annualized basis as a result of our purchase of a 70% stake in the Aliceville Facility (as defined herein); our expectations regarding operational efficiency at the Smithers Facility (as defined herein); anticipated supply delivery times under our off-take contracts; anticipated capital cost and maintenance capital expenditures required by our facilities; and anticipated production from our facilities.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Financial Risk Factors" section of this MD&A and in the "Risk Factors" section of our Annual Information Form ("AIF") dated March 21, 2018, which can be accessed under the Company's profile on SEDAR at www.sedar.com. The Company cautions that the list of risk factors and uncertainties described herein and in the AIF are not intended to represent a complete list of the factors that could affect us. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned to not place undue reliance on such information.

The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

In addition, this MD&A contains future-oriented financial information and financial outlook information (collectively, “FOFI”) about Pinnacle’s Adjusted EBITDA estimates for Fiscal 2019, which estimates are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. FOFI contained in this document was made as of the date hereof and was provided for the purpose of providing shareholders with information on Pinnacle’s financial outlook. Pinnacle disclaims any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable securities laws in Canada. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including “EBITDA”, “Adjusted EBITDA”, “Adjusted EBITDA per MT”, “Adjusted Gross Margin”, “Adjusted Gross Margin per MT”, “Adjusted Gross Margin Percentage”, and “Free Cash Flow”. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. As required by Canadian securities laws, we reconcile these non-IFRS measures to the most comparable IFRS measure in this MD&A. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, see “Key Performance Indicators” and “Results of Operations”.

COMPANY OVERVIEW, STRATEGY AND OBJECTIVES

Company Overview

Pinnacle is the third largest wood pellet producer in the world. We produce renewable fuel for electricity generation in the form of industrial wood pellets, which are used by global utilities and large-scale power generators to produce renewable and reliable baseload power. We are a trusted supplier to our customers, who require reliable, high quality fuel supply to maximize utilization of their facilities.

As one of only three large global suppliers, we currently operate nine production facilities with a combined run-rate production capacity in excess of 2.2 million metric tons per annum (“MTPA”). We are well-positioned to support growing global demand through the construction of new production capacity and the strategic acquisition of existing production facilities. Early in Fiscal 2019, we commenced commercial production at the Smithers Facility (125,000 MTPA) in partnership with West Fraser Timber Co. Ltd. (“West Fraser”). On October 15, 2018, we acquired a 70% interest in the Aliceville Facility (270,000 MTPA). On June 29, 2018, we commenced commercial production at our wholly-owned Entwistle Facility (as defined herein) (400,000 MTPA) and continue to ramp up production. For additional information regarding these facilities, see “Operational Update – New Production Facilities”.

We have entered into long-term take-or-pay contracts with our customers, whereby the buyer has a firm obligation to purchase a fixed quantity of product at specific prices that represent 109% of our production capacity through 2021 and 102% of our production capacity through 2026, on an aggregated basis, including new production capacity from the Aliceville, Entwistle and Smithers Facilities. As at December 28, 2018 our total Contracted Backlog (as defined herein) was $5.9 billion.

Strategy and Objectives

Through increasing capacity at our existing production facilities, including the recently acquired U.S.-based Aliceville Facility and the recently constructed Smithers Facility, as well as the addition of other greenfield and brownfield projects, we believe we have an opportunity to continue growing our industrial wood pellet production proportionately with increasing global demand.

In addition to organic growth opportunities, we will continue to evaluate and pursue acquisition opportunities or other strategic initiatives in Western Canada, in the U.S. Southeast, or in other jurisdictions, such as the U.S. Pacific Northwest and Eastern Canada, to further diversify our asset base, leverage our strong development and operational expertise and capture increased market share.

RECENT DEVELOPMENTS

Initial Public Offering

On February 6, 2018, we completed an initial public offering (the "IPO") of our common shares (the "Common Shares"). The IPO included a treasury offering by the Company and a secondary offering of Common Shares by certain of our shareholders at a price of $11.25 per Common Share. Pursuant to the IPO, we sold 6,223,889 Common Shares for total gross proceeds of approximately $70 million and the selling shareholders sold 7,111,111 Common Shares for total gross proceeds of approximately $80 million. The Common Shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "PL".

The underwriters were granted an over-allotment option (the "Over-Allotment Option") to purchase up to an additional 2,000,250 Common Shares from the selling shareholders at a price of $11.25 per Common Share. On February 27, 2018, the underwriters exercised the Over-Allotment Option in full.

Secondary Offering

On June 26, 2018, certain shareholders of the Company completed a secondary offering (the "Secondary Offering") of 4,186,000 Common Shares at a price of $13.75 per Common Share, for total gross proceeds of approximately $58 million. Pinnacle did not issue any Common Shares or receive any proceeds from the Secondary Offering. Pursuant to a registration rights agreement made with the selling shareholders at the time of the IPO, the Company was responsible for certain costs and expenses incurred by the selling shareholders.

Immediately prior to the closing of the Secondary Offering, ONCAP II L.P., ONCAP (US) II L.P., ONCAP (US) II-A L.P., Onex Parallel Investment (ONCAP) L.P., and Biomass EI Ltd. (collectively, the "ONCAP Entities"), collectively, owned or controlled (directly or indirectly) an aggregate of 14,112,787 common shares, representing approximately 42.8% of Pinnacle's issued and outstanding Common Shares. Following the sale of Common Shares in the Secondary Offering, the ONCAP Entities, collectively, own or control (directly or indirectly) approximately 31.6% of the issued and outstanding Common Shares. As required by early warning reporting requirements, the ONCAP Entities have disclosed that the Common Shares sold pursuant to the Secondary Offering were disposed of as a result of investment considerations, including price, market conditions, availability of funds, evaluation of alternative investments and other factors.

Acquisition in U.S. Southeast

On October 15, 2018, we 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 US$36.8 million. Westervelt retained a 30% interest in the Aliceville Facility. We funded the purchase of our 70% stake in the Aliceville Facility through a draw on our credit facility and cash on hand. Pinnacle and Westervelt are in the process of implementing a US$10 million capital spending program to improve safety, product quality and plant efficiencies, with 70% of such costs being attributable to the Company. Capital spending is expected to commence in the second quarter of Fiscal 2019.

Run-rate EBITDA per metric ton (“MT”) of the Aliceville Facility is expected to be in line with our other production facilities and capital costs, inclusive of the capital spending program, will be within our target range of 4.0x to 5.5x run-rate EBITDA. It is expected that the purchase will provide accretive free cash flow per share on an annualized basis.

To support our expansion into the United States, we have recruited dedicated senior business development resources in the United States.

New Off-take Agreements

During Q4 2018, we entered into two new long-term, take-or-pay contracts with customers in Asia:

- On December 14, 2018, we entered into a new long-term, take-or-pay contract with Daesan (as defined herein), our second contract with this customer. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Daesan beginning in 2022.

- On December 28, 2018, we entered into a long-term, take-or-pay contract with Sumitomo (as defined herein), our second contract with this customer. Under the terms of the contract, we will supply 50,000 MTPA of industrial wood pellets starting in the second half of 2020 for a one-year term. Following the initial one-year term, we will supply a total of 150,000 MTPA for the duration of the contract.

During Fiscal 2018, we entered into a record number of long-term, take-or-pay off-take contracts with existing and new customers in South Korea and Japan. With the inclusion of new contracts entered into during Fiscal 2018, which have longer terms than our existing contracts and extend past 2030, we have 109% of our production capacity contracted through 2021, and 102% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities. As a result of new contracts totaling $3.3 billion entered into during Fiscal 2018, including one contract through our acquisition of interest in the Aliceville Facility, the weighted average remaining life of our portfolio of off-take contracts with customers has been extended from less than seven years as at the end of Fiscal 2017 to nine years as at the end of Fiscal 2018. As at December 28, 2018, our Contracted Backlog was $5.9 billion, a 97% increase over our Contracted Backlog of $3.0 billion as at December 29, 2017.

Smithers Facility Commencement of Production

In November 2018, we commenced initial pellet production at the Smithers Facility. The production processes at the Smithers Facility are smaller and simpler than many of our other facilities. In addition, the majority of fibre is supplied by West Fraser locally. Commissioning of the Smithers Facility is proceeding in line with our expectations. In early Fiscal 2019, we commenced commercial production at the Smithers Facility. Full run-rate production of 125,000 MTPA is expected in the third quarter of Fiscal 2019.

Amalgamation

On December 29, 2018, Pinnacle Renewable Holdings Inc. completed a vertical short-form amalgamation under the *Business Corporations Act* (British Columbia) with its wholly-owned subsidiary, Pinnacle Renewable Energy Inc. Shortly following the amalgamation, the Company changed its name from "Pinnacle Renewable Holdings Inc." to "Pinnacle Renewable Energy Inc." The Company's stock trading symbol on the TSX remains as PL and the Common Shares commenced trading under its new name at the opening of trading on January 4, 2019. There were no changes in the share capital of the Company.

Entwistle Facility Fire Event

On February 11, 2019, Pinnacle temporarily suspended operations at our Entwistle Facility due to a fire and explosion that occurred at the dryer area of the facility. The Company is currently investigating the cause of the incident and developing action plans to restart the facility. Pinnacle’s priority is to manage the impacts of the incident on its employees, contractors, customers, suppliers, and the neighboring community. Management, Alberta Labour Occupational Health & Safety Alberta (“OH&S”), local fire authorities, Pinnacle’s insurance adjusters and equipment suppliers, as well as third-party experts are engaged in an investigation into the accident. OH&S released control of the site back to the Company on February 20, 2019.

Pinnacle is now working with its insurers, suppliers, and contractors to evaluate the damage and develop a plan to restart the dryer area. The rest of the Facility sustained little damage and Pinnacle will resume production of wood pellets in March 2019 from dry fibre. The Company is working with its customers to mitigate the impact of the temporary suspension of operations at the Facility.

Prior to the incident, the Company was successfully ramping-up the Facility. The storage silo is now fully operational and unit train delivery service commenced in Q4 2018. Fibre processing was improving and daily production rates were meeting the Company's previously established ramp-up curve. Management expects consistent performance improvement once the Facility resumes production.

MARKET AND OFF-TAKE AGREEMENTS UPDATE

Market Update

The growing global potential demand for industrial wood pellets is being driven by a shift toward renewable power generation, largely motivated by the introduction of regulatory frameworks that set targets and create incentives for the reduction of greenhouse gas ("GHG") emissions. Several global, regional and local regulatory frameworks and policies have been put in place to facilitate this shift to a cleaner energy mix, such as the Paris Agreement (Global), the Climate Change Act (U.K.), the Renewable Energy Directive (E.U.), the Best Energy Mix (Japan) and the Renewable Portfolio Standard (South Korea).

In Japan, demand continues to grow as independent power producer ("IPP") dedicated projects continue to develop their construction and financing plans. *FutureMetrics Q3 2018* edition shows further Japanese market growth from Japanese coal plant co-firing. Many coal plants are in the process of obtaining certification under the feed-in-tariff, with several having obtained approval as of October 2018. In Q4 2018, Toyota Tsusho Corporation ("Toyota Tsusho") commenced construction of a biomass power plant in Fukuoka, Japan. We will supply industrial wood pellets to this plant through our contract with Toyota Tsusho signed in June 2018, beginning in 2021 (see below under New and Extended Off-take Agreements).

In Q3 2018, the South Korean government clarified its program for biomass-fired IPP projects with defined start and completion dates. This has generated increased demand in South Korea for long-term, secure fuel contracts.

The conversion of existing power generating units in the Netherlands to utilize wood pellets by Uniper SE and RWE AG, two of Europe's largest power generators and energy traders, was completed during Q4 2018 and early 2019. We made our first shipment to Uniper SE in Q3 2018. The ramp up of these power plants, along with other plants expected to begin co-firing in 2019 and 2020, are expected to increase demand for wood pellets.

Drax Group plc, one of the United Kingdom's largest power utilities, received subsidy support for its fourth generating unit at the Drax Power Station in the United Kingdom. The effect of the subsidy support is expected to impact this generating unit in 2018 and 2019, allowing Drax to utilize wood pellets more continuously and at a slightly elevated overall level. In August 2018, Drax completed the conversion from coal to biomass at this generating unit.

New and Extended Off-take Agreements

The following is a summary of long-term sales contracts that we entered into with customers in Fiscal 2018.

- On April 19, 2018, we announced that we entered into a long-term, take-or-pay off-take contract with Ube Industries Ltd. ("Ube"), a diversified Japanese conglomerate. Under the terms of the contract, we will supply 70,000 MTPA of industrial wood pellets to Ube beginning in late 2019.

- On May 2, 2018, we announced that we entered into a long-term, take-or-pay contract with Toyota Tsusho, a large trading and investment company in Japan and a group member of TOYOTA. Under the terms of the contract, we will supply 30,000 MTPA of industrial wood pellets to Toyota Tsusho beginning in late 2021.

- On May 2, 2018, we also announced that we entered into a long-term, take-or-pay contract with Sumitomo Corporation ("Sumitomo"), a large, diversified trading company in Japan. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Sumitomo beginning in late 2022.

- On May 22, 2018, we announced that we entered into a new long-term, take-or-pay contract with Hanwa Co., Ltd. ("Hanwa"), a large, diversified trading company in Japan. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Hanwa beginning in early 2022.

- On June 27, 2018, we announced that we entered into a new long-term, take-or-pay contract with CGN Daesan Power Co., Ltd. ("Daesan"), a subsidiary of CGN New Energy Holdings Co., Ltd, a diversified independent power producer in Asia. Under the terms of the contract, we will supply 315,000 MTPA of industrial wood pellets to Daesan beginning in 2021.

- On June 27, 2018, we announced that we entered into a long-term, take-or-pay contract with Toyota Tsusho, our second contract with this customer. Under the terms of the contract, we will supply 170,000 MTPA of industrial wood pellets to Toyota Tsusho beginning in 2021.

- On December 14, 2018, we entered into a new long-term, take-or-pay contract with Daesan, our second contract with this customer. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Daesan beginning in 2022.

- On December 28, 2018, we entered into a long-term, take-or-pay contract with Sumitomo, our second contract with this customer. Under the terms of the contract, we will supply 50,000 MTPA of industrial wood pellets starting in the second half of 2020 for a one-year term. Following the initial one-year term, we will supply a total of 150,000 MTPA for the duration of the contract.

During Fiscal 2018, we signed six long-term off-take contracts totaling $1.9 billion with customers in Japan. These contracts continue to advance our strategy for sales growth into Japan and build on the overall sales momentum that we had in Fiscal 2017 wherein we signed four long-term contracts totalling $421 million, a third of which were with customers in Japan. Our growing contract backlog in Japan underlines both the increasing adoption of biomass and the strength of our competitive position in this market.

During the second quarter of Fiscal 2018 ("Q2 2018"), we signed our first long-term contract in South Korea with Daesan, which is an important milestone for us as it represents our largest contract to date in Asia. As the first long-term industrial wood pellet contract to ever be signed in South Korea, this new agreement attests to the country's growing commitment to decarbonization. During Q4 2018, we signed a second long-term contract with Daesan. The two long-term contracts signed with Daesan in Fiscal 2018 totaled $1.0 billion, thereby further establishing our strategic position in the Pacific Rim.

With the inclusion of new contracts entered into during Fiscal 2018, which have longer terms than our existing contracts and extend past 2030, we have 109% of our production capacity contracted through 2021, and 102% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities. As a result of new contracts totaling $3.3 billion entered into during Fiscal 2018, including one contract through our acquisition of interest in the Aliceville Facility, the weighted average remaining life of our portfolio of off-take contracts with customers has been extended from less than seven years as at end of Fiscal 2017 to nine years as at end of Fiscal 2018. As at December 28, 2018, our Contracted Backlog was $5.9 billion, a 97% increase over our Contracted Backlog of $3.0 billion as at December 29, 2017.

We have also improved our customer diversification. During Fiscal 2018, our three largest customers represented 75% of total revenue. During Fiscal 2017, our three largest customers represented 86% of our total revenue. We have gone from shipping to five major customers in Fiscal 2017 to eight during Fiscal 2018.

We continue our negotiations with various counterparties to secure long-term take-or-pay contracts in Asia and Europe to meet growing demand.

OPERATIONAL UPDATE

Existing Production Facilities and Port Operations

We are focused on operational excellence throughout our plant and logistics networks, specifically targeting improvements in safety, production and costs. We have developed capabilities to utilize a broad range of residual biomass in our industrial wood pellet making process. Through our investment in log chippers, destoners and other specialized biomass processing equipment, combined with the extensive operational knowledge we have developed in handling a diverse range of biomass feedstocks, we can process a broad spectrum of underutilized biomass residuals including whole logs, bush grind, and other harvest waste residuals, in addition to more traditional biomass residuals such as shavings and sawdust. We have access to a well-established rail infrastructure network in British Columbia and Alberta, with all of our Canadian production facilities accessible along Canadian

National Railway ("CN") rail lines. Our port infrastructure is a critical element of our supply chain and is comprised of our wholly-owned Westview Terminal in Prince Rupert, B.C. and our access to the Fibreco Export Inc. terminal at the Port of Vancouver via a long-term throughput contract.

Our 3% same-facility production volume increase in Fiscal 2018 compared to the same period last year, reflects record performance at our Burns Lake and Lavington Facilities. This strong operational performance was achieved despite a challenging environment including significant CN rail disruptions in the first two quarters of Fiscal 2018 resulting in lost production and extensive forest fires in British Columbia in Q3 2018. Active management of fibre supply and rail logistics were required to mitigate these factors. We continue to manage our network of facilities to adjust for potential temporary operational disruptions, while achieving production growth from continuous improvement programs.

In response to British Columbia forestry companies' current lumber market related sawmill curtailment programs, we have implemented fibre procurement mitigation strategies. We have long-term, supply contracts for fibre with major forestry companies wherein the percentage of fibre that is acquired from the processing of sawlogs into lumber (sawmill residuals) versus the fibre that is acquired as a by-product of the harvesting of timberlands to produce sawlogs (harvest residuals) shifts depending on the operating level of the sawmills. Accordingly, we now expect to receive a decreased supply of sawmill residuals (bark, sawdust and shavings) that can be acquired at a lower cost, and a higher proportion of more expensive harvest residuals (biologs and bush grind). We expect the impact to be mainly limited to some of our fibre sourcing at our Burns Lake and Meadowbank Facilities.

We continue to collaborate with the Government of British Columbia, local communities and the First Nations, to expand fibre availability and reduce cost with programs that enhance community fire protection and forest stewardship. Unlike many primary manufacturers, we can consume fire-damaged fibre without impacting the quality of our product. We are working with government agencies, First Nations, licensees and organizations like the Forest Enhancement Society of BC ("FES"), the Forests for Tomorrow Program and others to access this fibre and then regenerate these fire-damaged woodlands to support local communities, wildlife and the future forest sector. We are working with First Nations to develop opportunities for logging and chipping and increase the value they receive from their tenures in areas impacted by wildfires and mountain pine beetle infestations and create more jobs for their communities. The FES has funded projects that allow us to consume low-quality timber that would otherwise be burned because it is too far away from manufacturing centres. We also work closely with the forestry industry partners with whom we jointly own wood pellet production facilities, namely Canfor Corporation ("Canfor"), West Fraser, Tolko Industries Ltd. ("Tolko"), and Westervelt, to optimize both the cost and quality of our fibre supply. We have installed specialized processing equipment, such as log chippers and de-stoners, within our network of production facilities that provide us with an industry-leading ability to process a wide range of wood fibre.

Current fibre conditions in British Columbia further underline the importance of our recent expansion and diversification in Alberta and the U.S. Southeast, which has strengthened our platform for future growth. We remain well-positioned to continue growing our platform in support of long-term cash flow growth.

New Production Facilities

Entwistle

The Entwistle production facility (the "Entwistle Facility") is owned 100% by Pinnacle. The Entwistle Facility is located in Entwistle, Alberta, 95 kilometres west of Edmonton, in close proximity to abundant wood fibre sources, including several major sawmills. The Entwistle Facility commenced commercial production on June 29, 2018 at capitalised costs of $95.0 million (which include costs incurred to bring the Entwistle Facility to operate in a manner as intended by management, capitalised pre-operating commissioning costs, and capitalised borrowing costs).

Subsequent to the end of Fiscal 2018, on February 11, 2019, Pinnacle temporarily suspended operations at its Entwistle Facility due to an incident that occurred at the dryer area of the facility. At present, the cause of the incident is under investigation. Pinnacle's priority is to manage the impacts of the incident on its employees, contractors, customers, suppliers, and the neighboring community.

Prior to the incident, we were successfully ramping-up the Entwistle Facility. The storage silo is now fully operational and unit train delivery service commenced in Q4 2018. We have made progress addressing the initial fibre quality issues with our suppliers but were still incurring higher production costs than expected during the ramp-up of the facility. Achievement of run-rate capacity at the Entwistle Facility will be delayed due to the incident. We are currently cooperating with authorities in evaluating the damage to the dryer area in order to quantify the financial impact and prepare insurance claims. After we understand the program for repair and replacement of damaged equipment, we will prepare a revised production ramp-up curve and determine the financial impact of this event. We will provide more disclosure when we have further information.

Smithers

The Smithers production facility (the “Smithers Facility”) is owned 70% by Pinnacle and 30% by West Fraser through a partnership, Smithers Pellet Limited Partnership (“SPLP”), and is located in Smithers, B.C. The Smithers Facility commenced commercial production on December 29, 2018 at capitalised costs of $29.8 million to date (70% of which were attributable to us). Additional capital costs will be incurred at a later date. The budget for the facility is $33.0 million. Total capitalised costs include costs incurred to bring the Smithers Facility to operate in a manner as intended by management, capitalised pre-operating commissioning costs, capitalised borrowing costs, and the 2017 acquisition of the land and operating infrastructure for $8.4 million. Excluding capitalised pre-operating commissioning costs and capitalised borrowing costs, the total capitalised costs of the Smithers Facility was $28.4 million.

Commissioning of the Smithers Facility is proceeding in line with our expectations. In November 2018, we commenced initial pellet production. The production processes at the Smithers Facility are smaller and simpler than many of our other facilities. In addition, the majority of fibre is supplied by West Fraser locally. Full run-rate production of 125,000 MTPA is expected in the third quarter of Fiscal 2019.

Aliceville

The Aliceville Facility is located in Aliceville, Alabama, U.S. and operated by Westervelt Pellets I, LLC (“WPILLC”), a wholly-owned subsidiary of Pinnacle Westervelt Renewable Holdings, LLC (“PWRHLLC”). PWRHLLC is owned 70% by Pinnacle and 30% by Westervelt. The Aliceville Facility has a run-rate production capacity of approximately 270,000 MTPA, of which approximately 210,000 MTPA is committed under a long-term off-take contract to a major European utility. The remaining production volume from the Aliceville Facility will be sold through our contracted backlog of long-term, take-or-pay off-take contracts. The Aliceville Facility has been ramping up production capacity in 2018. As part of the acquisition, and consistent with our operating strategy, the Aliceville Facility has entered into long-term wood fibre supply contracts for residuals with several large local sawmills. Westervelt's sawmill, located in Moundville, Alabama, will remain an anchor supplier, ensuring strong alignment between Pinnacle and Westervelt.

Our experienced operations team is working closely with the Aliceville Facility team for safety and operations process training, systems implementation, and asset configuration optimization to continue the production ramp up. Safety and operational performance improvements continue to progress and production volumes have improved consistently. The Aliceville Facility is well-positioned to contribute to Adjusted EBITDA growth in Fiscal 2019. We will commence significant planned capital improvements in the second quarter of Fiscal 2019.

Production Capacity to Meet New and Extended Off-take Agreements

With the new long-term supply agreements contracted in Fiscal 2018, we will require additional industrial wood pellet production capacity to meet our growing customer backlog. Through our continuous improvement programs, we expect to continue to increase production capacity at our existing facilities. Additionally, under our Development Blueprint (as defined herein), once we have new, committed large-volume sales contracts, we initiate the expansion of our production capacity by advancing development of greenfield or brownfield production facilities in our funnel of new growth projects. We may also fulfill new contracted volumes through the acquisition of existing industrial wood pellet production facilities.

Once the Entwistle, Smithers and Aliceville facilities reach full run-rate production, our annual production capacity will have grown by 795,000 MTPA, an increase of 56%, from our annual run-rate production capacity at the beginning of Fiscal 2018.

FINANCIAL HIGHLIGHTS

We refer the reader to the section entitled “Key Performance Indicators” of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled “Results of Operations” for reconciliations of non-IFRS measures with the most directly comparable IFRS measure.

Select financial highlights include the following:

(In millions)	Q4 2018 13 weeks	Q4 2017 13 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks
Revenue	$ 103.7	$ 73.0	$ 347.4	$ 292.7
Production costs	$ 73.5	$ 47.4	$ 233.1	$ 188.4
Distribution costs	$ 13.4	$ 9.9	$ 46.9	$ 38.4
Selling, general and administration expenses	$ 3.9	$ 4.3	$ 22.8	$ 15.3
Net profit (loss) and comprehensive income (loss)	$ 7.5	$ 0.1	$ 2.7	$ (4.9)
Adjusted Gross Margin*	$ 16.7	$ 15.9	$ 67.6	$ 66.9
Adjusted Gross Margin Percentage*	16.1%	21.8%	19.5%	22.9%
Adjusted EBITDA*	$ 13.8	$ 12.8	$ 55.1	$ 56.1
Free Cash Flow*	$ 8.2	$ 4.6	$ 32.2	$ 38.1

(In billions)	December 28, 2018	December 29, 2017
Contracted Backlog	$ 5.9	$ 3.0

* See "Non-IFRS Measures".

SUMMARY OF FACTORS AFFECTING PERFORMANCE

We believe that our performance and future success depends on a number of factors that present significant opportunities. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See also the "Financial Risk Factors" section of this MD&A and the risk factors identified in our AIF.

Growing Global End Market

Our growth is supported by the increasing global demand for industrial wood pellets resulting from the shift toward renewable, cleaner power generation. This demand is largely driven by the introduction of regulatory frameworks that set targets and create financial incentives for the reduction of global greenhouse gas emissions. The increasing number of power generation plants compatible with industrial wood pellets in jurisdictions with favourable regulatory frameworks could provide stronger revenue growth if we are able to expand our industrial wood pellet production capacity accordingly. Adoption by additional markets of regulatory frameworks and incentive structures in countries that burn significant amounts of coal, such as the United States and China, could also significantly increase our revenue growth potential.

We have long-term sales contracts with utilities and large power generators in the United Kingdom, continental Europe and Asia. The United Kingdom uses a number of regulatory reforms, including a carbon tax, to encourage development of low-carbon alternatives, which includes biomass, and is currently the largest global market for wood pellets. However, we expect significant future revenue growth and geographic and customer diversification from the developing Japanese market. Japan supports investment in renewables through a feed-in-tariff system which offers twenty-year support for renewable energy power facilities. We are well-positioned geographically to participate in the growth of this developing market from our location in Western Canada. Changes in governments may result in modifications to these laws and regulatory environments that support the growth of our business. To address this risk, we continue to develop relationships with new customers in different regions.

Revenues and Costs for Deliveries to Customers

We enter into long-term take-or-pay off-take contracts with reliable counterparties, matching shipping requirements with new production availability. We have 109% of our production capacity contracted through 2021, and 102% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities.

Strong demand for industrial wood pellets enables us to obtain price escalation in contracts that should mitigate any increased cost of production and distribution. Revenues and costs for deliveries to customers can vary significantly between periods depending upon the type of contract and timing of shipments. Depending on the specific off-take contract, shipping terms are either Free on Board ("FOB"), whereby the buyer assumes responsibility for the goods as soon as they are shipped, or Cost, Insurance, Freight ("CIF"), whereby the seller assumes responsibility for the goods until the goods are received by the buyer (typically at the receiving port). Under an FOB contract, the customer is responsible for paying all shipping costs directly, so our revenue is not impacted by shipping costs. Under a CIF contract, we procure and pay for shipping costs which include insurance and all other charges up to the port of destination for the customer. These costs are included in the price charged to the customer and as such, are included in revenue and cost of distribution. As well, revenue is impacted by the timing of shipments which can result in material fluctuations in our revenue between periods.

New Development Projects

We have established a well-defined development blueprint for developing, constructing and operating new production facilities and expanding/converting existing production facilities (the "Development Blueprint"), which has led to a strong track record of successful project development. We have been one of the most active developers of industrial wood pellet production capacity and associated infrastructure in recent years, which has helped to establish us as one of the leading global suppliers of industrial wood pellets.

Following our Development Blueprint, we construct and commission new production facilities to support new sales contracts. We are currently gradually ramping up production at the recently constructed Smithers Facility in accordance with our Development Blueprint and will restart the ramp-up of the Entwistle Facility following the repairs required as a result of the fire event on February 11, 2019. In 2018 we have added 795,000 MT of run-rate production capacity including our Aliceville Facility. We are actively exploring sites for new production facilities.

Production

Our efficient, well-integrated network of production facilities and advanced production management practices allow us to ensure reliable production. We continue to increase our efficiencies. The following factors influence our production:

- **Fibre Availability:** Our operating flexibility across our network of production facilities to process a broad range of forest residuals from logs, bush grind, bark, sawdust, shavings, and chips, enables us to optimize wood fibre supply among multiple locations for efficient processing and to meet wood pellet specifications required by our customers;
- **Seasonality:** Extreme cold weather can impact equipment performance at our production facilities. Extremely wet weather and high moisture content in wood fibre can slow production and increase wood fibre drying costs. Extreme, prolonged dry weather conditions can lead to fire risk and the potential disruption of wood fibre supply when loggers cannot enter the forests to supply the production facilities. Our extensive long-term contractual relationships with some of the major forest companies in Canada and the U.S. allow us to offset wood fibre shortfalls in these situations. We also manage our inventory levels of logs to mitigate potential production disruptions;
- **Downtime:** Our "Owning Safety" culture established by management and shared amongst our partners at jointly-owned facilities provides high engagement and reduces downtime related to medical incidents and labour challenges; and
- **Capacity Utilization:** We utilize real-time information gathering to monitor equipment performance and utilize preventative maintenance programs with regularly scheduled production shutdowns to optimize equipment uptime and production throughput. We operate to stringent environmental standards and use specialized equipment and processes to remove particles from production emissions. Real time monitoring of production facility information affords us the opportunity to respond quickly to production disruptions for any reason.

Wood Fibre and Forest Residuals

Our production facilities are located in regions with a high volume of available, competitively priced and sustainably managed wood fibre ideal for the production of high calorific value industrial wood pellets. We have been successful in extending the terms of wood fibre agreements to support our existing and new production for up to 10 to 15-year terms. We have also expanded the types of wood fibre used in our production facilities and partnered with four of our largest wood fibre suppliers in the ownership of existing and in-development production facilities. These partnerships help ensure that our wood fibre suppliers have a vested interest in the economic success of our production facilities. Our wood fibre demand is symbiotic with, rather than in competition with, demand for high-grade wood for use by other forest product industries, such as lumber production. The use of un-merchantable logs, bark and other by-product for industrial wood pellet production indirectly supports other forest-related industries as well as the sustainable management of commercial forests.

Our ability to produce industrial wood pellets is dependent on the availability and cost of wood fibre available within an economic radius of our plants. In addition, the cost of our fibre can be impacted by the production and fibre-sourcing activities of our key suppliers. Currently, the announced sawmill curtailment programs of the British Columbia forest industry will have an impact on the cost of sourcing fibre as we move to a higher proportion of more expensive harvest residuals (biologs and bush grind).

Trucking, Rail and Port Logistics

Our production facilities in Western Canada are strategically located in highly concentrated sawmill regions, adjacent to rail lines and on back-haul routes in key wood fibre regions, enabling efficient, cost-effective transportation of industrial wood pellets and providing access to wood fibre supply. If there are rail line or trucking disruptions, mitigating strategies can be deployed. Our rail provider has been experiencing substantial growth and resourcing challenges as well as environmental factors such as the harsh winter conditions in the first quarter of Fiscal 2018 and forest fires in Q3 2018, which have impacted our Fiscal 2018 results. Industrial wood pellets from our Canadian production facilities are transported via rail to the Westview Terminal at the Port of Prince Rupert in Northern B.C. or the Fibreco Export Inc. terminal at the Port of Vancouver. The availability of alternative ports for shipping helps mitigate our risk. The weather sensitivity of our cargo and occasional port congestion of ships and rail cars can delay our shipment and increase demurrage costs. Conservative shipping scheduling provides the opportunity for pulling shipments forward and reducing costs when the weather is favourable. Due to the issues experienced in Fiscal 2018 with CN's service performance, we have entered into agreements with our rail service provider on joint capital projects to enhance rail infrastructure and improve rail service standards. In addition, CN has initiated staffing and capital investment improvement programs in western Canada that resulted in improved service reliability for our operations during Q4 2018.

Industrial wood pellets from our recently acquired Aliceville Facility are transported by barge to the Port of Mobile, Alabama, where they are loaded directly from the barge onto ships. The weather sensitivity of barge loading operations can delay our shipment and increase demurrage costs. During the most recent hurricane season in the U.S. Southeast, the shipping schedules of certain wood pellet producers were affected. The shipping schedules of the Aliceville Facility were not affected.

Sustainability

In order to be eligible for financial incentives and meet regulatory requirements that encourage the use of renewable energy, our customers, major utilities and power generators must comply with sustainability requirements which require that industrial wood pellets be sourced from forest lands that are managed in a manner which is demonstrably sustainable. To meet these sustainability requirements, we must ensure that the procurement of fibre, conversion to wood pellets and delivery to the point of consumption comply with certain carbon intensity targets. Forest practices in our areas of operation, our logistics network, our proximity to Asian markets, and our efficient use of large vessels for longer haul shipping to Europe allow us to meet sustainability requirements and obtain the required certifications.

KEY PERFORMANCE INDICATORS

The measures below are used by management as key performance indicators for our business. Certain measures used by management are not recognized under IFRS. See "Non-IFRS Measures".

IFRS Measures

Revenue

We primarily earn revenue by supplying industrial wood pellets to our customers under long-term off-take contracts. We refer to the structure of our contracts as "take-or-pay" because they include a firm obligation to take a fixed quantity of product at a stated price and contain provisions that ensure we will be compensated in the case of a customer's failure to accept all or a part of the contracted volumes or for termination by a customer. Each contract defines the annual volume of industrial wood pellets that a customer is required to purchase and we are required to sell, the fixed price per MT for product satisfying a base net calorific value and other technical specifications. These prices increase over time based on annual inflation-based adjustments or price escalators.

In addition to our sales of industrial wood pellets under these long-term, take-or-pay contracts, we occasionally sell small quantities of industrial wood pellets under short-term contracts which range in volume and tenor and, in some cases, may be limited to only one shipment. Because each of our contracts is a bilaterally negotiated agreement, the pricing is fixed and does not follow short-term contract market pricing trends. As a result, our revenue is predetermined over the duration of these contracts which ensures a high level of visibility for future revenue. Revenue from the sale of industrial wood pellets is recognized when the risks and rewards of ownership are transferred, there is no continuing managerial involvement to the degree associated with ownership, the amount of revenue can be measured reliably, it is probable the economic benefits will flow to the entity and costs incurred or to be incurred can be measured reliably.

The timing and size of shipments during a month or quarter can result in material fluctuations in our revenue recognition and related profitability between periods.

The vast majority of the industrial wood pellets we supply to our customers are produced at our production facilities. We also fulfill our contractual commitments and take advantage of dislocations in market supply and demand by purchasing from and selling to third-party market participants. In these back-to-back transactions where the risks and rewards of ownership are not immediately transferred to the ultimate purchaser, revenue is recorded only when the industrial wood pellets are delivered to the final customer.

Contracted Backlog

Contracted Backlog represents the revenue to be recognized under existing contracts, assuming deliveries occur as specified in the contracts.

Costs of Production and Distribution

The principal expenses to produce and deliver our industrial wood pellets consist of production and distribution costs.

We have strategically located our Canadian production facilities in British Columbia and Alberta in regions with high-quality wood fibre sources. Our Aliceville Facility is located in the U.S. Southeast, one of North America's key fibre baskets. We supply the majority of wood fibre in our production facilities primarily through long-term contracts. Delivered wood fibre costs include the cost of both procuring the fibre and trucking the fibre from the source to our production facilities.

Production costs at our production facilities consist of not only the costs of wood fibre but all the costs of production and maintenance labour and benefits, repairs and maintenance, utilities, plant overhead (property taxes, insurance, facility management), rail transportation, barge transportation and other direct costs. In addition to the industrial wood pellets that we produce at our owned and operated production facilities, we selectively purchase additional quantities of industrial wood pellets from third-party wood pellet producers, most significantly from the Houston production facility (the "Houston Facility"), our minority-owned business held in a partnership, Houston Pellet Limited Partnership ("HPLP"), with Canfor and the Moricetown Band Development Corporation.

Distribution costs include costs incurred at our wholly-owned Westview Terminal, costs paid to Fibreco Export Inc., a third-party terminal operator in Vancouver, Canada, and costs paid to CMT Terminals Inc., a third-party terminal operator in Mobile, Alabama, U.S. These costs include storage or handling costs while the product remains at port and shipping costs related to the delivery of our product from the ports to our customers. Both the strategic location of our production facilities and our ownership of the Westview Terminal has allowed for the efficient and cost-effective transportation of our industrial wood pellets.

Production costs associated with delivering our industrial wood pellets to our ports, third-party industrial wood pellet purchase costs and depreciation related to assets and intangibles related to the production process are included as a component of inventory. These costs are expensed when inventory is sold. Distribution costs are expensed as incurred.

Gross Margin

Gross Margin is our Revenue less Costs of Production and Distribution.

Selling, General and Administration

We incur selling, general and administrative ("SG&A") expenses related to our executive, central operations, finance, business and growth development and sales and marketing departments. These costs include salaries and benefits, professional fees and other administrative expenses not directly related to any one particular production facility or the Westview Terminal, including the costs of our internal development team.

Equity Earnings in HPLP

With the exception of a small portion of sales made directly to Kansai Electric Power Co., Inc., industrial wood pellets produced at the Houston Facility are sold to our customers. Our investment in the Houston Facility is accounted for on an equity basis as we own 30% of HPLP.

Non-controlling interests

The Lavington Facility is operated through Lavington Pellet Limited Partnership ("LPLP"), 75% owned by Pinnacle with the remaining 25% interest held by Tolko. Our consolidated results include 100% of the results of the Lavington Facility with the 25% interest owned by Tolko disclosed as non-controlling interests. We have an agreement to purchase pellets from LPLP and sell to end customers through Pinnacle until October 2022.

The Smithers Facility is operated through SPLP, 70% owned by Pinnacle with the remaining 30% interest held by West Fraser. Our consolidated results include 100% of the results of the Smithers Facility with the 30% interest owned by West Fraser disclosed as non-controlling interests.

The Aliceville Facility is operated through WPILLC, a wholly-owned subsidiary of PWRHLLC which is 70% owned by Pinnacle with the remaining 30% interest held by Westervelt. Our consolidated results include 100% of the results of the Aliceville Facility with the 30% interest owned by Westervelt disclosed as non-controlling interests.

Non-IFRS Measures

Adjusted Gross Margin Percentage

"Adjusted Gross Margin" is defined as gross margin excluding gains and losses on asset disposals and amortization of equipment and intangible assets included in cost of goods sold.

"Adjusted Gross Margin Percentage" is defined as Adjusted Gross Margin as a percentage of revenue.

We use Adjusted Gross Margin Percentage to measure our financial performance. We believe Adjusted Gross Margin Percentage is a meaningful measure because it compares our revenue generating activities to our operating costs for a view of profitability and performance. By calculating Adjusted Gross Margin Percentage we can show the performance trends over time as our sales mix changes. Adjusted Gross Margin Percentage will primarily be affected by our ability to meet targeted production volumes and to control direct and indirect costs associated with procurement and delivery of wood fibre to our production facilities and the production and distribution of industrial wood pellets. Adjusted Gross Margin Percentage as we calculate it may not be comparable to metrics provided by other businesses.

Adjusted EBITDA

"EBITDA" is defined as consolidated net income (loss) before depreciation and amortization, finance expense and provision for income taxes.

"Adjusted EBITDA" is defined as EBITDA excluding non-cash stock compensation expense, asset impairments and disposals, and certain items of income or loss that we characterize as unrepresentative of our ongoing operations. Adjusted EBITDA includes an amount representing our 30% share of HPLP and excludes the non-controlling interests share of LPLP, SPLP and PWRHLLC.

We use Adjusted EBITDA to measure our financial performance. Adjusted EBITDA is a supplemental measure used by management and other users of our financial statements including shareholders and lenders, to assess the financial performance of our business without regard to financing methods or capital structure.

We believe Adjusted EBITDA is a useful measure of operating performance as it provides a more relevant picture of operating results by excluding the effects of financing and investing activities which removes the effects of interest, depreciation and amortization costs, expenses that are not reflective of our underlying business performance, and other one-time or non-recurring expenses. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis and to provide for a more complete understanding of factors and trends affecting our business.

Free Cash Flow

"Free Cash Flow" is defined as Adjusted EBITDA less maintenance capital expenditures, finance costs, principal repayments, and cash taxes paid.

We use Free Cash Flow as a performance metric to compare the cash generating performance of the business from period to period and to compare the cash generating performance for specific periods to the cash distributions, if any, that are expected to be paid to our shareholders. We do not rely on Free Cash Flow as a liquidity measure.

As we intend to distribute dividends on an ongoing basis, and since Adjusted EBITDA is a metric used by many investors and financial analysts to compare issuers on the basis of the ability to generate cash from operations, we believe that, in addition to net cash provided by operations, Adjusted EBITDA is a useful non-IFRS supplemental measure from which to make adjustments to determine Free Cash Flow. We believe Adjusted EBITDA provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities by removing the effects of interest, depreciation and amortization costs, expenses that are not reflective of underlying business performance, and other one-time or non-recurring income or expenses. However, there are no standard definitions of Adjusted EBITDA or Free Cash Flow prescribed by IFRS and other issuers may calculate similarly described measures differently.

CONTRACTED BACKLOG

We enter into long-term, take-or-pay off-take contracts with large and well capitalized counterparties or their affiliates.

"Contracted Backlog" represents the revenue to be recognized under existing contracts assuming deliveries occur as specified in the contracts. As a result of customer preferences or logistics management, there can be movement in the timing of deliveries that may result in revenue being recognized in either a preceding or following interim fiscal period. Our expected future industrial wood pellet sales under our Contracted Backlog as of December 28, 2018 is as follows ($ billions):

Fiscal 2019	$ 0.5
Fiscal 2020	0.5
Fiscal 2021 and thereafter	4.9
Total product sales under Contracted Backlog	**$ 5.9**

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands except per share amounts)	Q4 2018 13 weeks	Q4 2017 13 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2016 53 weeks
Consolidated Statements of Profit (Loss) Data					
Revenue	**$ 103,728**	**$ 72,958**	**$ 347,440**	**$ 292,727**	**$ 266,338**
Costs and expenses:					
Production	73,472	47,377	233,107	188,414	173,693
Distribution	13,371	9,925	46,899	38,421	39,474
Selling, general and administration	3,933	4,347	22,789	15,268	12,331
Amortization of equipment and intangible assets	7,220	5,280	24,678	21,819	21,211
Profit (loss) before finance costs and other (income) expense	**$ 5,732**	**$ 6,029**	**$ 19,967**	**$ 28,805**	**$ 19,629**
Finance cost	(1,740)	6,120	3,042	24,251	1,000
Other (income) expense	(1,626)	(358)	15,638	8,912	7,796
Net profit (loss) before income taxes	**$ 9,098**	**$ 267**	**$ 1,287**	**$ (4,358)**	**$ 10,833**
Income tax expense (recovery):					
Current	-	-	-	-	(2)
Deferred	1,643	163	(1,415)	526	(5,569)
Net profit (loss)	**$ 7,455**	**$ 104**	**$ 2,702**	**$ (4,884)**	**$ 5,262**
Net profit (loss) per share attributable to owners					
Basic and diluted	$ 0.22	$ (0.04)	$ 0.05	$ (0.22)	$ 0.11
Consolidated Statements of Cash Flows					
Cash provided by (used in)					
Operating activities before net change in non-cash operating working capital	$ 14,565	$ 11,305	$ 50,756	$ 51,128	$ 44,742
Net change in non-cash operating working capital	$ 3,998	$ (15,302)	$ 7,017	$ (20,183)	$ (14,126)
Financing activities	$ 61,110	$ 41,165	$ 59,930	$ 48,812	$ (20,958)
Investing activities	$ (68,809)	$ (29,786)	$ (118,797)	$ (72,682)	$ (13,250)

(In thousands except per MT amounts)	Q4 2018 13 weeks	Q4 2017 13 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2016 53 weeks
Other Financial Data					
Adjusted EBITDA[1]	$ 13,830	$ 12,775	$ 55,102	$ 56,121	$ 43,922
Adjusted EBITDA per MT[1]	$ 29.24	$ 38.25	$ 34.61	$ 40.87	$ 33.68
Adjusted Gross Margin per MT[1]	$ 35.23	$ 47.70	$ 42.49	$ 48.74	$ 40.72
Adjusted Gross Margin Percentage[1]	16.1%	21.8%	19.5%	22.9%	19.9%
Maintenance capital expenditures	$ 2,610	$ 4,549	$ 8,059	$ 9,040	$ 4,434
Growth capital expenditures	$ 20,358	$ 24,586	$ 65,072	$ 63,016	$ 8,916
Operating Data					
MT of industrial wood pellets sold	473	334	1,607	1,373	1,304

(In thousands)	December 28, 2018	December 29, 2017	December 30, 2016
Selected Consolidated Statements of Financial Position Data			
Cash	$ 18,028	$ 18,908	$ 12,112
Property, plant and equipment	$ 330,899	$ 238,196	$ 175,849
Total assets	$ 627,294	$ 433,645	$ 353,511
Term debt and shareholders' debentures (including current portion)	$ 241,925	$ 285,694	$ 234,142
Total non-current liabilities	$ 321,637	$ 318,811	$ 263,600
Total equity	$ 229,013	$ 35,204	$ 37,951

RESULTS OF OPERATIONS

Analysis of Results for Q4 2018 to Q4 2017

The following section provides an overview of our financial performance in Q4 2018 compared to Q4 2017.

(In thousands)	Q4 2018 13 weeks	Q4 2017 13 weeks	Q4 2018 vs. Q4 2017
MT of industrial wood pellets sold	**473**	**334**	**139**
Revenue	**$ 103,728**	**$ 72,958**	**$ 30,770**
Costs and expenses			
Production	73,472	47,377	26,095
Distribution	13,371	9,925	3,446
Selling, general and administration	3,933	4,347	(414)
Amortization	7,220	5,280	1,940
	97,996	**66,929**	**31,067**
Profit before finance costs and other (income) expenses	**5,732**	**6,029**	**(297)**
Finance (income) cost	(1,741)	6,120	(7,861)
Other (income) expense	(1,626)	(358)	(1,268)
	(3,367)	**5,762**	**(9,129)**
Net profit (loss) before income taxes	**9,099**	**267**	**8,832**
Income tax expense (recovery)			
Current	-	-	-
Deferred	1,643	163	1,480
Income Taxes	1,643	163	1,480
Net profit (loss) and comprehensive income (loss)	**$ 7,456**	**$ 104**	**$ 7,352**

Revenue

Revenue for Q4 2018 totaled $103.7 million, an increase of $30.8 million, or 42.2%, compared to $73.0 million for Q4 2017. This increase was primarily attributable to higher sales volume.

Production cost

Production costs were $73.5 million for Q4 2018, an increase of $26.1 million compared to $47.4 million for Q4 2017, primarily due to an increase in sales volume, higher fibre costs and higher cash conversion costs. We experienced higher than expected repair and maintenance expenditures at the Entwistle Facility related to fibre quality issues and lower than projected production levels due to shortage of rail car engines prior to the storage silo commissioning.

Distribution cost

Distribution costs were $13.4 million for Q4 2018, an increase of $3.4 million compared to $9.9 million for Q4 2017, reflecting higher volumes shipped.

Selling, general and administration expense

SG&A expenses were $3.9 million for Q4 2018, a decrease of $0.4 million compared to $4.3 million for Q4 2017, primarily due to a $0.7 million decrease in professional fees incurred in connection with the IPO and a $0.3 million decrease in legal fees incurred on a damage claim we were pursuing against one of our equipment suppliers, partially offset by a $0.7 million increase in professional fees and travel expenses primarily related to exploration of new business opportunities.

Amortization expense

Amortization expense was $7.2 million for Q4 2018, an increase of $1.9 million compared to $5.3 million for Q4 2017, reflecting the commencement of amortization for property, plant and equipment related to the commencement of commercial production at the Entwistle Facility at the end of Q2 2018. In addition, amortization expense for Q4 2018 included those related to the recently acquired Aliceville Facility. Construction in progress for the Smithers Facility was not subject to amortization until the assets were available for use at the beginning of Fiscal 2019.

Finance (income) cost

Finance income was $1.7 million for Q4 2018, compared to finance cost of $6.1 million for Q4 2017. This change was primarily due to a $3.3 million increase in fair value gain on foreign exchange derivative contracts, a $3.2 million reduction in interest on shareholders' debentures, which were converted into Common Shares upon the closing of the IPO, a $1.2 million increase in unrealized gain on foreign exchange, and a $0.5 million decrease in amortization of deferred financing fees, partially offset by a $1.0 million increase in interest on our credit facilities.

Other income

Other income was $1.6 million for Q4 2018, an increase of $1.3 million compared to $0.3 million for Q4 2017, primarily due to a $0.6 million net gain from the disposal of capital assets, including that of our Quesnel facility, during Q4 2018.

Income taxes

Income tax expense was $1.6 million for Q4 2018, an increase of $1.4 million compared to $0.2 million for Q4 2017. The increase in income tax expense was primarily attributable to an increase in net profit before taxes in Q4 2018.

Net profit

Net profit and comprehensive income was $7.5 million in Q4 2018, an increase of $7.4 million compared to $0.1 million in Q4 2017. This variance was primarily attributable to a $7.9 million decrease in finance cost, partially offset by a $1.5 million increase in income tax expense as discussed above.

Adjusted Gross Margin Percentage*

(In thousands except per MT amounts)		Q4 2018 13 weeks		Q4 2017 13 weeks		Q4 2018 vs. Q4 2017
Profit before finance costs and other income (expenses)	**$**	**5,732**	**$**	**6,029**	**$**	**(297)**
Selling, general and administration		3,933		4,347		(414)
Amortization		7,220		5,280		1,940
Equity earnings in HPLP		152		255		(103)
Non-controlling interests		(375)		20		(395)
Adjusted Gross Margin	**$**	**16,662**	**$**	**15,931**	**$**	**731**
Adjusted Gross Margin per MT	**$**	**35.23**	**$**	**47.70**	**$**	**(11.32)**
Adjusted Gross Margin Percentage		**16.1%**		**21.8%**		**(5.7%)**

* See "Non-IFRS Measures".

Adjusted Gross Margin Percentage was 16.1% for Q4 2018 ($35.23/MT), a decrease from 21.8% in Q4 2017 ($47.70/MT). The decrease was primarily due to higher production costs associated with start-up at the Entwistle Facility, offset by higher revenue from higher sales volume as discussed above.

*Adjusted EBITDA**

(In thousands except per MT amounts)		Q4 2018 13 weeks		Q4 2017 13 weeks		Q4 2018 vs. Q4 2017
MT of industrial wood pellets sold		**473**		**334**		**139**
Net profit (loss)	**$**	**7,456**	**$**	**104**	**$**	**7,352**
Income tax expense		1,643		163		1,480
Finance costs excluding shareholder debentures (1)		(1,885)		2,667		(4,552)
Finance costs on shareholder debentures		-		3,241		(3,241)
Amortization of equipment and intangible assets (2)		7,054		5,089		1,965
EBITDA	**$**	**14,268**	**$**	**11,264**	**$**	**3,004**
EBITDA Adjustments						
Stock-based compensation expense (recovery)		(833)		172		(1,005)
Loss (gain) on disposal of PP&E (3)		(535)		478		(1,013)
Plant curtailment costs		80		53		27
Loss on conversion of shareholder debentures		-		-		-
Revaluation of Class B and Class D common shares		-		(424)		424
Other items (4)		850		1,232		(382)
Total Adjustments		**(438)**		**1,511**		**(1,949)**
Adjusted EBITDA	**$**	**13,830**	**$**	**12,775**	**$**	**1,055**
Adjusted EBITDA per MT	**$**	**29.24**	**$**	**38.25**	**$**	**(8.05)**

* See "Non-IFRS Measures".

Notes:

(1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
(2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and PWRHLLC.
(3) Loss on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and SPLP.
(4) Other items include legal fees related to pursuing a damage claim and deduction for the non-controlling interest's share of LPLP, SPLP, and PWRHLLC.

Adjusted EBITDA for Q4 2018 was $1.1 million higher than Q4 2017. Increased revenue was partially offset by higher production costs associated with start-up at the Entwistle Facility as discussed above. In addition, constant heavy precipitation during Q4 2018 impacted loading volumes at port terminals in British Columbia.

Free Cash Flow*

(In thousands)		Q4 2018 13 weeks		Q4 2017 13 weeks		Q4 2018 vs. Q4 2017
Net profit (loss)	**$**	**7,456**	**$**	**104**	**$**	**7,352**
Income tax expense		1,643		163		1,480
Finance costs excluding shareholder debentures (1)		(1,885)		2,667		(4,552)
Finance costs (income) on shareholder debentures		-		3,241		(3,241)
Amortization of equipment and intangible assets (2)		7,054		5,089		1,965
EBITDA	**$**	**14,268**	**$**	**11,264**	**$**	**3,004**
Stock-based compensation expense		(833)		172		(1,005)
Loss (gain) on disposal of PP&E (3)		(535)		478		(1,013)
Plant curtailment costs		80		53		27
Loss on conversion of shareholder debentures		-		-		-
Revaluation of Class B and Class D shares		-		(424)		424
Other items (4)		850		1,232		(382)
Adjusted EBITDA (5)	**$**	**13,830**	**$**	**12,775**	**$**	**1,055**
Maintenance capital expenditures (6)		(2,610)		(4,549)		1,939
Interest and finance costs, net (7)		(3,006)		(2,025)		(981)
Cash taxes paid (8)		-		-		-
Mandatory amortization (9)		-		(1,600)		1,600
Free Cash Flow	**$**	**8,214**	**$**	**4,601**	**$**	**3,613**

* See "Non-IFRS Measures".

Notes:

(1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
(2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and PWRHLLC.
(3) Loss (gain) on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and SPLP.
(4) Other items include professional fees incurred in connection with the Secondary Offering in Q2 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP, SPLP, and PWRHLLC.
(5) See definition of Adjusted EBITDA in the section entitled "Key Performance Indicators" and reconciliation of Adjusted EBITDA to net income in "Results of Operations".
(6) "Maintenance capital expenditures" refers to cash expenditures to maintain long-term operating capacity or net income. Annual maintenance capital expenditure allows for the maintenance of long-term operating capacity or net income. We anticipate the recently commissioned Entwistle Facility and the Smithers Facility to require $3.6 million in annual maintenance capital expenditures.
(7) Reflect post-IPO capital structure, and therefore exclude interest and financing costs on historical credit facilities. We repaid certain of our credit facilities in connection with the IPO.
(8) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 29, 2017, we had unused non-capital loss carryforwards of $96.4 million. We do not anticipate a requirement to pay income tax before 2020.
(9) There was no mandatory amortization for Q4 2018. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free cash flow increased $3.6 million from $4.6 million in Q4 2017 to $8.2 million in Q4 2018. The increase is primarily due to a decrease in maintenance capital expenditures of $1.9 million, a decrease in mandatory amortization of term debt of $1.6 million, and an increase in Adjusted EBITDA of $1.1 million, partially offset by an increase of $1.0 million in net interest and finance costs.

Analysis of Results for Fiscal 2018 to Fiscal 2017

The following section provides an overview of our financial performance in Fiscal 2018 compared to Fiscal 2017.

(In thousands)		Fiscal 2018 52 weeks		Fiscal 2017 52 weeks		Fiscal 2018 vs. Fiscal 2017
MT of industrial wood pellets sold		**1,607**		**1,373**		**234**
Revenue	**$**	**347,440**	**$**	**292,727**	**$**	**54,713**
Costs and expenses						
Production		233,107		188,414		44,693
Distribution		46,899		38,421		8,478
Selling, general and administration		22,789		15,268		7,521
Amortization		24,678		21,819		2,859
		327,473		**263,922**		**63,551**
Profit before finance costs and other expenses		**19,967**		**28,805**		**(8,838)**
Finance cost		3,042		24,251		(21,208)
Other (income) expense		15,638		8,912		6,726
		18,680		**33,163**		**(14,483)**
Net income (loss) before income taxes		**1,287**		**(4,358)**		**5,645**
Income tax expense (recovery)						
Current		-		-		-
Deferred		(1,415)		526		(1,941)
Income Taxes		(1,415)		526		(1,941)
Net profit (loss)	**$**	**2,702**	**$**	**(4,884)**	**$**	**7,586**

Revenue

Revenue for Fiscal 2018 totaled $347.4 million, an increase of $54.7 million, or 18.7%, compared to $292.7 million for Fiscal 2017. This increase was attributable to higher sales volume and an increase in the average sales price per MT.

Production cost

Production costs were $233.1 million for Fiscal 2018, an increase of $44.7 million from $188.4 million for Fiscal 2017, primarily due to an increase in sales volume and higher fibre and cash conversion costs. High repairs and maintenance expenditures at the Entwistle Facility related to initial delivery fibre quality issues and lower than projected production levels due to CN unit train service failures and delays in construction of the storage silo (which was completed in Q4 2018) increased rail and cash conversion costs. In addition, the aforementioned higher fibre and cash conversion costs were incurred as we managed facilities impacted by forest fires and related rail disruptions in Q3 2018.

Distribution cost

Distribution costs were $46.9 million for Fiscal 2018, an increase of $8.5 million compared to $38.4 million for Fiscal 2017, primarily due to an increase in volume sold.

Selling, general and administration expense

SG&A expenses increased $7.5 million from $15.3 million for Fiscal 2017 to $22.8 million for Fiscal 2018. SG&A expenses in Fiscal 2018 include certain professional fees incurred in connection with the IPO and the Secondary Offering of $1.2 million and $0.3 million, respectively, and $1.2 million of legal fees related to a damage claim we are pursuing against one of our equipment suppliers. In Fiscal 2017, legal fees related to this claim were $1.0 million. In addition, in Fiscal 2017, $0.4 million of professional fees related to the Entwistle Facility previously incurred were capitalised upon board approval of the project. Excluding the above items, SG&A expenses increased $5.4 million from Fiscal 2017 to Fiscal 2018. Of this $5.4 million increase, $4.3 million relates to incremental stock-based compensation expense in Fiscal 2018, and $1.1 million relates to legal fees, professional fees, and travel expenses related to the acquisition of the Aliceville Facility.

Amortization expense

Amortization expense increased by $2.9 million from $21.8 million in Fiscal 2017 to $24.7 million in Fiscal 2018. During Fiscal 2018, the majority of additions to property, plant and equipment related to construction in progress for the Entwistle and Smithers Facilities. Construction in progress is not subject to amortization until the assets are available for use. The increase in amortization is primarily due to the commencement of amortization for property, plant and equipment related to the commencement of commercial production for the Entwistle Facility at the end of Q2 2018. In addition, amortization expense for Fiscal 2018 included those related to the Aliceville Facility acquired during Q4 2018.

Finance cost

Finance cost was $3.0 million in Fiscal 2018, a decrease of $21.2 million from $24.2 million in Fiscal 2017. This decrease was primarily due to a $12.4 million reduction in interest on shareholders' debentures, which were converted into Common Shares upon the closing of the IPO, a $7.6 million fluctuation in the fair value of foreign exchange derivative contracts, a $1.5 million increase in unrealized gain on foreign exchange, and a $0.4 million decrease in amortization of deferred financing fees, partially offset by an $1.4 million increase in interest on credit facilities.

Other expense

Other expense was $15.6 million in Fiscal 2018, an increase of $6.7 million from $8.9 million in Fiscal 2017. This increase was primarily due to a $21.9 million loss on conversion of shareholders' debentures in Fiscal 2018, partially offset by a $9.2 million fluctuation related to revaluation of Class B and Class D common shares, which were converted upon pre-closing capital changes completed in connection with the IPO, a $4.4 million decrease in curtailment losses recognised on our Quesnel facility, and a $1.4 million fluctuation in gains and losses on disposal of property, plant and equipment.

Income taxes

Income tax recovery was $1.4 million in Fiscal 2018. In Fiscal 2017, income tax expense was $0.5 million. The change was primarily attributable to deferred income tax recovery on the loss on conversion of shareholders' debentures into Common Shares upon closing of the IPO.

Net profit (loss)

Net profit was $2.7 million in Fiscal 2018, compared to a net loss of $4.9 million in Fiscal 2017. The change was primarily attributable to a $21.2 million decrease in finance costs and an $1.9 million net increase in income tax recovery, partially offset by $8.8 million decrease in profit before finance costs and other expenses and a $6.7 million increase in other expenses as discussed above.

Adjusted Gross Margin Percentage*

(In thousands except per MT amounts)		Fiscal 2018 52 weeks		Fiscal 2017 52 weeks		Fiscal 2018 vs. Fiscal 2017
Profit before finance costs and other income (expenses)	**$**	**19,967**	**$**	**28,805**	**$**	**(8,838)**
Selling, general and administration		22,789		15,268		7,521
Amortization		24,678		21,819		2,859
Equity earnings in HPLP		1,058		1,381		(323)
Non-controlling interests		(852)		(353)		(499)
Adjusted Gross Margin	**$**	**67,640**	**$**	**66,920**	**$**	**720**
Adjusted Gross Margin per MT**	**$**	**42.49**	**$**	**48.74**	**$**	**(6.25)**
Adjusted Gross Margin Percentage		**19.5%**		**22.9%**		**(3.4%)**

* See "Non-IFRS Measures".

** 14,900 MT of initial production from the Entwistle Facility included in finished goods inventory at the end of Q2 2018 were sold at no margin during Q3 2018, and are excluded in the determination of Adjusted Gross Margin per MT accordingly.

Adjusted Gross Margin Percentage was 19.5% for Fiscal 2018 ($42.49/MT), down from 22.9% in Fiscal 2017 ($48.74/MT), primarily due to higher production costs associated with start-up at the Entwistle Facility, higher fibre costs, higher fibre costs for incremental production volume from our legacy production facilities as they increased production to offset the shortfall at the Entwistle Facility during the ramp-up stage, partially offset by higher revenue from an increase in the average sales price per MT as discussed above.

*Adjusted EBITDA**

(In thousands except per MT amounts)		Fiscal 2018 52 weeks		Fiscal 2017 52 weeks		Fiscal 2018 vs. Fiscal 2017
MT of industrial wood pellets sold		**1,607**		**1,373**		**234**
Net profit (loss)	**$**	**2,702**	**$**	**(4,884)**	**$**	**7,586**
Income tax expense (recovery)		(1,415)		526		(1,941)
Finance costs excluding shareholder debentures (1)		3,279		11,592		(8,313)
Finance costs on shareholder debentures		-		12,359		(12,359)
Amortization of equipment and intangible assets (2)		24,244		21,395		2,849
EBITDA	**$**	**28,810**	**$**	**40,988**	**$**	**(12,178)**
EBITDA Adjustments						
Stock-based compensation expense		4,266		237		4,029
Loss (gain) on disposal of PP&E (3)		(362)		1,049		(1,411)
Plant curtailment costs		235		4,626		(4,391)
Loss on conversion of shareholder debentures		21,881		-		21,881
Revaluation of Class B and Class D common shares		(3,563)		5,601		(9,164)
Other items (4)		3,835		3,620		215
Total Adjustments		**26,292**		**9,110**		**17,182**
Adjusted EBITDA	**$**	**55,102**	**$**	**56,121**	**$**	**(1,019)**
Adjusted EBITDA per MT**	**$**	**34.61**	**$**	**40.87**	**$**	**(6.26)**

* See "Non-IFRS Measures".

** 14,900 MT of initial production from the Entwistle Facility included in finished goods inventory at the end of Q2 2018 were sold at no margin during Q3 2018, and are excluded in the determination of Adjusted EBITDA per MT accordingly.

Notes:

(1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
(2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and PWRHLLC.
(3) Loss (gain) on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and SPLP.
(4) Other items include professional fees incurred in connection with the IPO and Secondary Offering in Fiscal 2018 of $1.2 million and $0.3 million, respectively, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP, SPLP, and PWRHLLC.

Adjusted EBITDA was $55.1 million in Fiscal 2018, a decrease of $1.0 million from $56.1 million in Fiscal 2017. Increased revenue was partially offset by higher production costs associated with start-up at the Entwistle Facility as discussed above.

Free Cash Flow*

(In thousands)		Fiscal 2018 52 weeks		Fiscal 2017 52 weeks		Fiscal 2018 vs. Fiscal 2017
Net profit (loss)	**$**	**2,702**	**$**	**(4,884)**	**$**	**7,586**
Income tax expense (recovery)		(1,415)		526		(1,941)
Finance costs excluding shareholder debentures (1)		3,279		11,592		(8,313)
Finance costs (income) on shareholder debentures		-		12,359		(12,359)
Amortization of equipment and intangible assets (2)		24,244		21,395		2,849
EBITDA	**$**	**28,810**	**$**	**40,988**	**$**	**(12,178)**
Stock-based compensation expense		4,266		237		4,029
Loss on disposal of PP&E (3)		(362)		1,049		(1,411)
Plant curtailment costs		235		4,626		(4,391)
Loss on conversion of shareholder debentures		21,881		-		21,881
Revaluation of Class B and Class D shares		(3,563)		5,601		(9,164)
Other items (4)		3,835		3,620		215
Adjusted EBITDA (5)	**$**	**55,102**	**$**	**56,121**	**$**	**(1,019)**
Maintenance capital expenditures (6)		(8,059)		(9,040)		981
Interest and finance costs, net (7)		(8,851)		(7,425)		(1,426)
Cash taxes paid (8)		-		-		-
Mandatory amortization (9)		(6,000)		(1,600)		(4,400)
Free Cash Flow	**$**	**32,192**	**$**	**38,056**	**$**	**(5,864)**

* See "Non-IFRS Measures".

Notes:

(1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
(2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and PRWHLLC.
(3) Loss on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and SPLP.
(4) Other items include professional fees incurred in connection with the IPO and Secondary Offering in Fiscal 2018 of $1.2 million and $0.3 million, respectively, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP, SPLP, and PWRHLLC.
(5) See definition of Adjusted EBITDA in the section entitled "Key Performance Indicators" and reconciliation of Adjusted EBITDA to net income in "Results of Operations".
(6) "Maintenance capital expenditures" refers to cash expenditures to maintain long-term operating capacity or net income. Annual maintenance capital expenditure allows for the maintenance of long-term operating capacity or net income. We anticipate the recently commissioned Entwistle Facility and the Smithers Facility to require $3.6 million in annual maintenance capital expenditures.
(7) Reflect post-IPO capital structure, and therefore exclude interest and financing costs on historical credit facilities. We repaid certain of our credit facilities in connection with the IPO.
(8) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 29, 2017, we had unused non-capital loss carryforwards of $96.4 million. We do not anticipate a requirement to pay income tax before 2020.
(9) There was no mandatory amortization for the first three quarters of Fiscal 2017. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free cash flow was $32.2 million in Fiscal 2018, a decrease of $5.9 million from $38.1 million in Fiscal 2017. This decrease was primarily due to an increase in mandatory amortization of our term debt of $4.4 million, a decrease in Adjusted EBITDA of $1.0 million, and an increase in net interest and finance costs of $1.4 million, partially offset by a decrease in maintenance capital expenditures of $1.0 million.

SUMMARY OF CONSOLIDATED RESULTS AND CERTAIN PERFORMANCE MEASURES

The following table summarizes the results of our operations for the last eight quarters. This unaudited quarterly information has been prepared in accordance with IFRS. [1]

	2018				2017			
(In thousands except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks
MT of industrial wood pellets sold	**473**	**421**	**385**	**328**	**334**	**387**	**332**	**320**
Revenue	**$ 103,728**	**$ 87,606**	**$ 85,084**	**$ 71,022**	**$ 72,958**	**$ 82,366**	**$ 69,556**	**$ 67,847**
Costs and expenses								
Production	73,472	57,222	53,893	48,520	47,377	51,628	44,863	44,546
Distribution	13,371	12,360	13,138	8,030	9,925	11,568	7,868	9,060
Selling, general and administration	3,933	5,374	4,265	9,217	4,347	4,222	3,493	3,206
Amortization	7,220	6,719	5,381	5,358	5,280	5,365	5,570	5,604
	97,996	**81,675**	**76,677**	**71,125**	**66,929**	**72,783**	**61,794**	**62,416**
Profit (loss) before finance costs and other (income) expenses	5,732	5,931	8,407	(103)	6,029	9,583	7,762	5,431
Finance cost (income) [2]	(1,741)	4,360	41	382	6,120	6,469	5,835	5,827
Other (income) expense [3][4]	(1,626)	(399)	(320)	17,983	(358)	9,146	131	(7)
	(3,367)	**3,961**	**(279)**	**18,365**	**5,762**	**15,615**	**5,966**	**5,820**
Net profit (loss) before income taxes	**9,099**	**1,970**	**8,686**	**(18,468)**	**267**	**(6,032)**	**1,796**	**(389)**
Income tax expense (recovery)								
Current	-	-	-	-	-	-	-	-
Deferred [5]	1,643	454	(2,182)	5,694	(163)	2	(469)	104
Income Taxes	1,643	454	(2,182)	5,694	(163)	2	(469)	104
Net profit (loss)	**$ 7,456**	**$ 1,516**	**$ 6,504**	**$ (12,774)**	**$ 104**	**$ (6,030)**	**$ 1,327**	**$ (285)**
Net profit (loss) attributable to:								
Owners of the Company	7,081	1,184	6,218	(12,633)	124	(6,371)	1,234	(224)
Non-controlling interests	375	332	286	(141)	(20)	341	93	(61)
Net profit (loss)	**$ 7,456**	**$ 1,516**	**$ 6,504**	**$ (12,774)**	**$ 104**	**$ (6,030)**	**$ 1,327**	**$ (285)**
Net profit (loss) attributable to owners								
Net income (loss) attributable to owners	7,081	1,184	6,218	(12,633)	124	(6,371)	1,234	(224)
Cumulative preferred dividends	-	-	-	(104)	(409)	(309)	(309)	(310)
	$ 7,081	$ 1,184	$ 6,218	$ (12,737)	$ (285)	$ (6,680)	$ 925	$ (534)
Net profit (loss) per share attributable to owners								
Basic and diluted	$ 0.22	$ 0.04	$ 0.19	$ (0.58)	$ (0.04)	$ (0.97)	$ 0.13	$ (0.08)

Notes:

(1) Factors that impact the comparability of the quarters include the following: (a) the cost of producing industrial wood pellets during the winter is typically greater than that during the summer due to the higher moisture content of raw materials which results in higher drying costs and the increased costs of maintaining operating equipment due to lower ambient temperatures; and (b) net profit (loss) is also impacted by fluctuations in Canadian dollar exchange rates from the revaluation of the Company's outstanding US dollar forward exchange contracts and the translation of our US operations.

(2) In Q4 2016, a $21.3 million (before-tax) gain was recognised on the modification of terms of shareholders' debentures.

(3) Class B and Class D common shares, which are classified as liabilities are subject to fair value adjustments. Revaluation gains and losses were recognised as follows: in the third quarter of Fiscal 2017, a loss of $6.0 million (before-tax), and in the fourth quarter of Fiscal 2016, a loss of $10.3 million (before-tax). Upon closing of the IPO in the first quarter of Fiscal 2018, a gain of $3.6 million (before-tax) was recognised on conversion of Class B and Class D common shares.

(4) In the first quarter of Fiscal 2018, a $21.9 million (before-tax) loss and an associated $5.8 million deferred income tax recovery were recognised on conversion of shareholders' debentures upon closing of the IPO.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal uses of funds are for operating expenses, capital expenditures, debt service requirements and dividends. We believe that cash generated from operations, together with amounts available under our credit agreement, will be sufficient to meet our operating expenses, capital expenditures, debt service and dividend requirements. In addition, we believe that our capital structure provides us with financial flexibility to pursue our future growth strategies.

However, our ability to fund operating expenses, capital expenditures, and future debt service and dividend requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Summary of Factors Affecting Performance" and "Risk Factors" in this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise.

Historically, the funding for any such investments has come from cash flow from operating activities and/or our credit facilities. We believe our delayed draw facility under our credit agreement, together with the proceeds from the IPO, will be sufficient to finance the Entwistle Facility, Smithers Facility, Aliceville Facility and our anticipated capital expenditures associated therewith.

Non-cash Working Capital

"Non-cash working capital" is defined as the sum of accounts receivable, inventories, and other current assets, less accounts payable and accrued liabilities, and other current liabilities. Non-cash working capital excludes cash, the current portion of our long-term debt including the revolving credit facility and therefore provides our management and investors with a clear understanding of the efficiency of our operational working capital needs. Our need for non-cash working capital is highly dependent on the timing of shipments, particularly at the end of a period as a total shipment can be valued at over $10 million. Shipment timing impacts accounts receivable and finished industrial wood pellet inventories. Payment terms differ for each contract, but we typically receive an initial payment equal to 90% of the total value of a shipment 12 to 15 days after the shipment leaves the port, with the balance received after the vessel fully discharges its cargo to the customer. Less significantly, non-cash working capital is impacted by wood fibre inventory changes due to the accumulation of wood fibre in winter months and increases in whole log volumes and values as we diversify our wood fibre sources and create supply stock piles.

Senior Credit Facilities

As at December 28, 2018, our credit facilities consisted of $200 million of term debt, $130 million of committed delayed draw, and $50 million of committed revolver. All facilities mature on December 13, 2022.

Advances under the facilities 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 52-week periods ended December 28, 2018 we made scheduled repayments of nil and $6 million, respectively, on our term loan (13-week and 52-week periods ended December 29, 2017 – $1.6 million). At December 28, 2018, the $194 million term loan was in a Canadian dollar BA loan at 5.03% and the $18.5 million revolver was in a Canadian dollar BA loan at 5.70% and $50.5 million delayed draw was in in a USD BA loan at 8.00%. At December 29, 2017, the $180 million term loan and the revolver loan were in Canadian dollar Prime loans at 5.70% and the $22 million delayed draw term loan was in a Canadian dollar BA loan at 4.86%. At December 28, 2018, we had issued letters of credit totaling $1.4 million (December 29, 2017 - $0.5 million). The delayed draw has been designated as a hedge against the investment in our U.S. operations and unrealized foreign exchange losses of $1.5 million (2017 - nil) arising on its revaluation were recognized in foreign currency translation differences in other comprehensive income for the 52-week period ended December 28, 2018.

EBITDA and Adjusted EBITDA are defined in our credit agreement and used in the calculation of debt covenants and interest rate margins. Adjusted EBITDA as defined in our credit agreement is different than Adjusted EBITDA as presented in our MD&A as it includes adjustments to reflect run-rate EBITDA at facilities in the commissioning phase, among other adjustments. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The NMTC Debt is not included in the calculation of Total Funded Debt (as defined in the credit agreement) as it is indemnified by Westervelt and the we carry a NMTC Receivable from Westervelt of an equal amount. As at December 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.

All the credit facilities require mandatory loan prepayments by us of principal and interest if certain events occur.

Refer to the "Credit Agreement" sub-section under the "Material Contracts" section in the AIF for details of our credit facilities.

CASH FLOWS

Analysis of cash flows for Q4 2018 compared to Q4 2017

(In thousands)		**Q4 2018 13 weeks**		**Q4 2017 13 weeks**		**Q4 2018 vs. Q4 2017**
Cash flow from operations before net change in non-cash working capital	$	13,064	$	11,305	$	1,759
Net change in non-cash operating working capital		5,498		(15,302)		20,800
Financing activities		61,110		41,165		19,945
Investing activities		(68,808)		(29,786)		(39,022)
Other		(112)		(69)		(43)
Change in cash		**10,752**		**7,313**		**3,439**
Cash at beginning of period		7,276		11,595		(4,319)
Cash at end of period	**$**	**18,028**	**$**	**18,908**	**$**	**(880)**

Cash flow from operations before net change in non-cash working capital

Cash flow from operations before net change in non-cash working capital increased by $1.8 million to $13.1 million for Q4 2018 from $11.3 million for Q4 2017, primarily due to higher revenue in Q4 2018 compared to Q4 2017.

Net change in non-cash working capital

The $5.5 million increase in non-cash working capital in Q4 2018 was primarily comprised of an $8.3 million increase in accounts payable and accrued liabilities, a $1.9 million decrease in inventory, and a $0.6 million decrease in other current assets, offset by a $3.4 million increase in accounts receivable and a $1.9 million decrease in other current liabilities. The $15.3 million decrease in non-cash working capital in Q4 2017 reflected an increase in accounts receivable related to the timing of certain shipments at period-end.

Financing activities

In Q4 2018, financing activities provided $61.1 million of cash, primarily from $65.4 million in net credit facilities drawn and $1.5 million net investment from non-controlling interest, partially offset by $5.0 million in dividends paid, and $0.3 million in finance costs paid. In Q4 2017, financing activities provided $41.2 million, primarily from the amendment of our credit facilities to fund the construction of the Entwistle and Smithers Facilities.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In Q4 2018, cash used for the acquisition of the Aliceville Facility was $47.6 million and cash used for property, plant and equipment excluding the acquisition of the Aliceville Facility was $23.0 million. In Q4 2017, cash used for property, plant and equipment was $29.8 million.

Analysis of cash flows for Fiscal 2018 compared to Fiscal 2017

(In thousands)		Fiscal 2018 52 weeks		Fiscal 2017 52 weeks		Fiscal 2018 vs. Fiscal 2017
Cash flow from operations before net change in non-cash working capital	$	50,756	$	51,128	$	(372)
Net change in non-cash operating working capital		7,017		(20,183)		27,200
Financing activities		59,930		48,812		11,118
Investing activities		(118,797)		(72,682)		(46,115)
Other		214		(279)		493
Change in cash		**(880)**		**6,796**		**(7,676)**
Cash at beginning of year		18,908		12,112		6,796
Cash at end of year	**$**	**18,028**	**$**	**18,908**	**$**	**(880)**

Cash flow from operations before net change in non-cash working capital

Cash flow from operations before net change in non-cash working capital decreased by $0.3 million to $50.8 million for Fiscal 2018 from $51.1 million for Fiscal 2017, reflecting the higher cash costs in production in Fiscal 2018 compared to Fiscal 2017.

Net change in non-cash working capital

The $7.0 million increase in non-cash working capital in Fiscal 2018 was primarily comprised of a $13.0 million increase in accounts payable and accrued liabilities and a $7.1 million decrease in accounts receivable, partially offset by a $14.0 million decrease in other current liabilities. The $20.2 million decrease in non-cash working capital in Fiscal 2017 was primarily comprised of a $20.7 million decrease in accounts payable and accrued liabilities and an $16.5 million increase in accounts receivable, partially offset by a $14.2 million increase in other current liabilities, and an $2.7 million decrease in inventory.

Financing activities

In Fiscal 2018, financing activities provided $59.9 million of cash, primarily from net proceeds of the IPO of $64.6 million, a net draw of credit facilities of $40.9 million, and investment from non-controlling interests of $5.9 million, offset by repayment of shareholders' debentures of $28.6 million, dividends paid of $12.9 million, and finance costs paid of $8.9 million. In Fiscal 2017, financing activities provided $48.8 million primarily from $54.9 million in net draw of credit facilities and investment from non-controlling interests of $2.4 million, partially offset by $8.3 million in finance costs paid.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In Fiscal 2018, cash used for property, plant and equipment excluding the acquisition of the Aliceville Facility was $73.1 million, an $1.0 million increase from $72.1 million in Fiscal 2017. In Fiscal 2018, cash used for the acquisition of the Aliceville Facility was $47.6 million.

OUTLOOK

We believe that we have an opportunity to continue growing our revenue and profitability over the next several years as a result of our current production facility development projects as well as contracted price increases in most of our off-take agreements. In addition, we believe that as the potential demand for industrial wood pellets continues to grow globally, we are well positioned to meet this demand growth through a combination of expansion projects at existing production facilities and new greenfield and brownfield growth projects. Moreover, we will continue to evaluate potential acquisitions to grow our production platform.

Our strategies to realize on these opportunities are summarized as follows:

- continue to realize production and operating efficiencies in our existing production facilities to increase EBITDA per MT;
- grow our business through the commissioning and operational execution of the Entwistle Facility and Smithers Facility, and other greenfield project opportunities throughout North America;
- expand production capacity at existing production facilities, including that of the recently acquired Aliceville Facility;
- make potential accretive acquisitions of industrial wood pellet producers in Canada or the U.S.;
- capture our share of opportunities in the growing Asian marketplace as a result of our proximity to this market, which results in shipping cost advantages, and our longstanding relationships with customers in this region; and
- continue to improve gross margins through further efficiencies in our sourcing and production processes.

We expect to see continued strong execution in the strategic growth plan of the business in 2019. The Aliceville and Smithers Facilities added in Q4 2018 will contribute to 2019 growth as they ramp-up production.

Sawmill curtailments that have been announced by some British Columbia forest products companies will result in a reduction in the availability of lower cost sawmill residuals (sawdust and shavings). As a result, we will procure a greater proportion of higher cost harvest residuals (pulp logs and bush grind). We expect the impact to be mainly limited to some of our fibre sourcing at the Burns Lake and Meadowbank Facilities.

The financial impact of the recent temporary suspension of operations at the Entwistle Facility is difficult to estimate at this early date. We will resume reduced production of wood pellets from the Entwistle Facility in March 2019 through the use of dry fibre. As we obtain further information regarding the timeline for recommencement of the dryer area of the facility, we will be in a better position to provide an update on our outlook for 2019.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes the contractual obligations and off-balance sheet arrangements as at December 28, 2018 for each of the next five fiscal years and thereafter:

(In millions)	2019	2020	2021	2022	2023	Thereafter	Total
Revolver loan	$ 18.5	$ -	$ -	$ -	$ -	$ -	$ 18.5
Term loan	9.5	14.5	19.0	151.0	-	-	194.0
Delayed draw	-	3.0	4.8	42.7	-	-	50.5
Finance lease	1.0	0.8	0.2	-	-	-	2.0
Operating lease	10.7	9.2	7.4	5.0	4.6	28.8	65.7
Total contractual obligations	$ **39.7**	$ **27.5**	$ **31.4**	$ **198.7**	$ **4.6**	$ **28.8**	$ **330.7**

The obligations under the senior credit facilities are discussed in the "Liquidity and Capital Resources" section of this MD&A.

FINANCIAL RISK FACTORS

We are exposed to a number of risks as a result of holding financial instruments including credit risk, liquidity risk and market risk. Our Risk Management Committee manages risk related to counterparty credit risk and market risk such as foreign exchange.

Credit risk

Credit risk is the risk of financial loss to us if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash and accounts receivable. We manage our credit risk on cash by using major Canadian chartered banks for all cash deposits. The cash balance at December 28, 2018 was $18.0 million (December 29, 2017 - $18.9 million).

We manage our credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over $5.0 million. The significant majority of our sales are contracted with large utility customers. The accounts receivable balance at December 28, 2018 was $43.0 million (December 29, 2017 - $41.3 million).

Liquidity risk

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

At December 28, 2018, we had available liquidity of $49.1 million (December 29, 2017 - $44.3 million) from our debt facilities (excluding delayed draw) and cash balances and forecast sufficient liquidity throughout Fiscal 2019. We expect to finance our operations and cash flows from our current available resources without further support from our shareholders and lenders. However, to the extent that additional cash resources are required due to unforeseen circumstances, we anticipate support from our shareholders and lenders, although there can be no guarantees. At December 28, 2018, our ratio of net debt to last twelve month Adjusted EBITDA was 4.51 times. This ratio was higher than our target of 3.25 times because of the investment in the Aliceville Facility in Q4 2018 and in significant new capacity at the Entwistle and Smithers Facilities in advance of achieving run-rate Adjusted EBITDA.

Market risk

Market risk is that the change in market prices such as foreign exchange rates will affect our net profit (loss) and that the future cash flows of a financial instrument will fluctuate due to changes in market prices.

With respect to costs of distribution, we mitigate the market risk of fluctuations in shipping costs by entering into long-term, fixed-price shipping contracts with reputable shippers matching the terms and volumes of our CIF off-take contracts for which we are responsible for managing shipping. We enter into these long-term shipping contracts at the same time as we enter long-term sales contracts, ensuring matching the terms and tenure between both contracts. Certain of our off-take contracts include pricing adjustments for volatility in fuel prices, which allows us to pass the majority of the fuel price risk associated with shipping through to our customers.

Foreign currency

For our Canadian entities, the functional and reporting currency is the Canadian dollar. Our sales, operating and capital expenditures are primarily denominated and settled in Canadian dollars. We have exposure to the US dollar on our shipping costs, rail car leases and some capital purchases. We mitigate our exposure to the US dollar on our shipping costs by invoicing the shipping portion in US dollars and with a contract with our major shipping provider with a fixed US dollar to Canadian dollar exchange rate. We mitigate the remaining exposure by entering into a series of US dollar forward contracts matching the amount and timing of the estimated US dollar expenditures.

These contracts are simultaneously settled on a gross tax basis as the Company exchanges US dollars into Canadian dollars at predetermined rates. We do not apply hedge accounting to our US dollar forward contracts. Refer to Note 25 to the Consolidated Financial Statements for outstanding notional amounts of the US dollar forward contracts and their contractual maturities.

For our U.S. entities, the functional currency is the US dollar. Our sales, operating and capital expenditures are primarily denominated and settled in US dollars.

Interest rate

We are exposed to interest rate risk through our credit facility including our revolver, term loan and delayed draw term loan which are subject to variable lending rates. As at December 28, 2018, we do not use financial instruments to manage interest rate risk.

Our objective when managing our capital structure is to maintain a strong financial position and to provide returns with sufficient liquidity to undertake further growth for the benefit of our shareholders.

There were no changes to our approach to capital management during the year.

We are subject to certain financial covenants in our debt obligations. Refer to Note 9 to the Consolidated Financial Statements for details. Our strategy is to ensure we remain in compliance with all of our existing covenants so as to ensure continuous access to required debt to fund growth. We review results and forecasts to monitor our compliance.

Disclosure Controls & Procedures and Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

Procedures performed in 2018 to test the design and operating effectiveness of internal controls over financial reporting confirmed that controls are adequate and provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

Changes in Internal Control Over Financial Reporting

There were no changes to our disclosure controls and procedures and internal control over financial reporting during Q4 2018.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS ADOPTED AND ISSUED BUT NOT EFFECTIVE

Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continuously evaluated and are based on management's best judgments and experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

The most significant accounting judgments and estimates that we have made in the preparation of the Consolidated Financial Statements are consistent with that as described in the Consolidated Financial Statements.

Significant Accounting Standards Adopted and Issued But Not Effective

Accounting standards adopted in the first quarter of Fiscal 2018

<u>*IFRS 15 — Revenue from Contracts with Customers*</u>

We have 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 did not have a material impact on the Consolidated Financial Statements, other than in the form of additional disclosures in the notes therein.

<u>*IFRS 9 — Financial Instruments*</u>

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. The adoption of IFRS 9 did not have a material impact on the Consolidated Financial Statements.

Accounting standards adopted in the first quarter of Fiscal 2019

<u>*IFRS 16 — Leases*</u>

IFRS 16 *Leases* was issued in January 2016 by the IASB as a replacement for IAS 17 Leases and is effective for annual periods beginning on or after January 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-to-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

IFRS 16 may be applied retrospectively to each prior period presented (full retrospective approach), or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The modified retrospective method offers the option, on a lease by lease basis, to either measure the right of use asset retrospectively using the discount rate as at the date of initial application, or to measure the right of use asset at an amount equal to the lease liability. We have elected to apply the modified retrospective approach upon adoption at January 1, 2019, measuring the right of use asset at an amount equal to the lease liability. The short-term and low-value recognition exemptions available under the standard will be utilized, along with certain practical expedients.

Based on lease data as at December 28, 2018, IFRS 16 is expected to result in an increase to right-to-use assets and lease liabilities of approximately $48 million. We are finalizing our analysis and calculations in the first quarter of Fiscal 2019 and will provide all the required disclosures and amounts when filing our condensed consolidated interim financial statements in the first quarter of Fiscal 2019.

RELATED PARTY TRANSACTIONS

HPLP transactions

HPLP is owned 30% by us and 70% by non-related third parties. We purchase industrial wood products from HPLP and earn revenue from sales of fibre and distribution fees. We manage and administer the business affairs of HPLP and charge a management fee. These transactions are at negotiated amounts with the non-related third parties.

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

LPLP transactions

LPLP is owned 75% by us and 25% by a non-related third party. We purchase industrial wood products from LPLP and earn revenue from sales of fibre at negotiated prices with the non-related third party. We manage and administer the business affairs of LPLP.

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

SPLP transactions

SPLP is owned 70% by us and 30% by a non-related third party. We and the non-related third party make contributions proportionate to our ownership interest to fund the construction of the Smithers Facility. We manage and administer the business affairs of SPLP.

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

PWRHLLC transactions

PWRHLLC is owned 70% by us and 30% by a non-related third party. We and the non-related third party make contributions proportionate to our ownership interest to fund the capital spending program at the Aliceville Facility through WPILLC. We manage and administer the business affairs of PWRHLLC.

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

Controlling entity

Prior to the IPO, we were controlled by the ONCAP Entities who owned approximately 60% of the Company. The ONCAP Entities are ultimately controlled by Onex Corporation. Our remaining shareholders were former owners or current employees.

Immediately following the closing of the IPO, the ONCAP Entities owned 42.9% of the Company.

Immediately following the closing of the Secondary Offering, the ONCAP Entities owned 31.6% of the Company.

Minority shareholder in the Company

During the first quarter of Fiscal 2018 and during Fiscal 2017, we paid market rent for the Williams Lake facility to a corporation controlled by the controlling shareholder of one of our minority shareholders, Beckman Holdings Inc., resulting from a lease agreement entered into in the normal course of business on an arm's-length basis. Upon completion of the IPO, Beckman Holdings Inc. ceased to be a shareholder of the Company.

During Q4 2018, we sold the assets of our Quesnel facility to the controlling shareholder of one of our minority shareholders, Swaan Holdings Inc., and a related person of such minority shareholder, at negotiated amounts.

See Note 23 to the Consolidated Financial Statements for additional details on related party transactions.

SHARE CAPITAL

Our authorized share capital consisted of unlimited common participating, voting shares, without par value, and unlimited preferred participating, non-voting shares, without par value.

Current Share Information

As of February 21, 2019, we had 33,003,713 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of February 21, 2019, an aggregate of 1,744,491 options to acquire Common Shares and 271,921 restricted share units representing the right to Common Shares are outstanding.

SUBSEQUENT EVENT

On December 29, 2018, we commenced commercial production at the Smithers Facility. Additional capital costs will be incurred at a later date.

On January 18, 2019, we reached a settlement on a damage claim we were pursuing against one of our equipment suppliers for gross proceeds of approximately $7.5 million in our favour. The payment is expected to be received in the first quarter of Fiscal 2019.

On February 11, 2019, Pinnacle temporarily suspended operations at the Entwistle Facility due to a fire and explosion that occurred at the dryer area of the facility. The Company is currently investigating the cause of the incident and developing action plans to restart the facility. The rest of the Entwistle Facility sustained little damage. We are working with our customers to mitigate the impact to the extent possible under the circumstances. OH&S released control of the site back to the Company on February 20, 2019.

On February 21, 2019, we declared a cash dividend of $0.15 per Common Share to shareholders of record as at March 5, 2019, to be paid on March 14, 2019.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.