Third Quarter of Fiscal 2019

For the 13-week and 39-week periods ended September 27, 2019 and
September 28, 2018

Management's Discussion & Analysis

Pinnacle.
RENEWABLE ENERGY INC.

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated November 12, 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 and 39-week periods ended September 27, 2019 ("Q3 2019"). This MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and accompanying notes for Q3 2019 (the "Consolidated Financial Statements"), as well as our audited consolidated financial statements and accompanying notes for Fiscal 2018 (as defined herein) as prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and the related MD&A 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 IFRS, using the accounting policies described therein. Our interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. 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, all references to "Fiscal 2017" are to our 52-week period ended December 29, 2017, all references to "Fiscal 2018" are to our 52-week period ended December 28, 2018, 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 2019" are to our 13-week period ended September 27, 2019, all references to "Q3 2018" are to our 13-week period ended September 27, 2018, all references to "YTD 2019" are to our 39-week period ended September 27, 2019, and all references to "YTD 2018" are to our 39-week period ended September 28, 2018. 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.

In this MD&A, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. The term "dollars" and the symbols "$" and "CDN$" refer to Canadian dollars and the term "U.S. dollars" and the symbol "US$" refer to United States dollars. In this MD&A, the term "tonne" and the symbol "MT" refer to a metric tonne and the term "ton" or the symbol "ST" refer to a short ton, a measure of weight equal to 0.9072 metric tonne. Use of these symbols is in accordance with industry practice.

The information in this report is as of November 12, 2019 which is the date of filing in conjunction with our press release announcing our results for Q3 2019. Disclosure contained in this document is current to November 12, 2019 unless otherwise stated.

Forward-Looking Information

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 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 19, 2019, 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 such risks, uncertainties and factors 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 recognised 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 "Non-IFRS Measures" and "Results of Operations".

COMPANY OVERVIEW, HISTORY, STRATEGY AND OBJECTIVES

Company Overview

Pinnacle produces 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 and have one in construction with a combined run-rate production capacity in excess of 2.5 million metric tons per annum ("MTPA"). We believe that we are well-positioned to support growing global demand through the construction of new production capacity and the strategic acquisition of existing production facilities. On June 29, 2018 we commenced commercial production at our wholly-owned facility located in Entwistle, Alberta (the "Entwistle Facility") (400,000 MTPA) and are currently operating at a reduced capacity while we work to return the Entwistle Facility to its commissioning curve following the fire and explosion described under the heading "Recent Developments - New and Expanded Production Facilities – Entwistle". On October 15, 2018 we acquired a 70% interest in an operating industrial wood pellet production facility located in Aliceville, Alabama (the "Aliceville Facility") (270,000 MTPA). Early in Fiscal 2019, we commenced commercial production at a wood pellet production facility located in Smithers, B.C. (the "Smithers Facility") (125,000 MTPA). Upgrades at our facility in Williams Lake, B.C. (the "Williams Lake Facility") and Meadowbank, B.C. (the "Meadowbank Facility") commenced in Q2 2019. The upgrades will improve the fibre processing abilities of the two facilities and increase our overall production capacity by approximately 80,000 MTPA. We expect to commence commissioning of the Williams Lake Facility in Q1 2020 and the Meadowbank Facility in Q3 2020. On July 4, 2019 we entered into a limited partnership agreement with Tolko Industries Ltd. ("Tolko") to build and operate Northern Pellet Limited Partnership, a new industrial wood pellet production facility in High Level, Alberta (the "High Level Facility") that is expected to have a run-rate production capacity of 170,000 to 200,000 MTPA. Initial wood pellet production at the High Level Facility is expected to commence in the fourth quarter of 2020. For additional information regarding these facilities, see "Recent Developments – New and Expanded 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 pellets at specific prices, that represent an average of 108% of our production capacity through 2026 on an aggregated basis, including new production capacity from the Aliceville, Entwistle, Smithers, and High Level Facilities, and expanded Williams Lake and Meadowbank Facilities. As at September 27, 2019 our total Contracted Backlog (as defined herein) was $7.1 billion with a weighted average remaining term of approximately nine years.

History

Founded in 1989, Pinnacle was one of the first wood pellet producers in the industry. In 2004, we identified the significant growth potential for the industrial wood pellet sector as a new form of renewable energy to meet the emerging needs of European power generators. By 2008, we were primarily focused on utility-grade wood pellets ("industrial wood pellets"), having constructed four industrial wood pellet production facilities ("production facilities") and completed the acquisition of an existing production facility in B.C. to satisfy growing demand. Concurrently, we broadened our management team and implemented processes and systems that contributed to our becoming a leading operator in the global industrial wood pellet industry.

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 by certain of our shareholders. Pursuant to the IPO, we sold 6,223,889 Common Shares for total gross proceeds of approximately $70.0 million and the selling shareholders sold 9,111,361 Common Shares for total gross proceeds of approximately $102.5 million. The Common Shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "PL".

On June 26, 2018 certain shareholders of the Company completed a secondary offering (the "Secondary Offering") of 4,186,000 Common Shares for total gross proceeds of approximately $58.0 million, further increasing our capital market liquidity.

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

Strategy and Objectives

Through increasing capacity at our existing production facilities, including the recently acquired U.S.-based Aliceville Facility, the recently constructed Smithers Facility, the addition of other greenfield and brownfield projects, including the upgrades at our Williams Lake and Meadowbank Facilities, and the construction of the High Level Facility we believe we have an opportunity to continue growing our industrial wood pellet production proportionately with increasing global demand which is expected to more than double from 2016 to 2021.

Our B.C. production facility diversity and purchasing power offers a unique proposition with wood fibre suppliers as the entire residual basket (including shavings, sawdust, chips, bark, harvest residuals, and biologs) can be acquired and optimally allocated amongst our multiple production facility locations for efficient processing. Sawmill industry production volumes vary with lumber prices, stumpage rates and economic cycles, resulting in sawmill closures and fluctuations in production of sawmill residuals during down cycles. To offset reduced sawmill residuals we are able to source sustainable supplies of harvest residuals to fill the gap of sawmill residuals, where necessary. We do not experience the same cyclical dynamics in Alberta and Alabama as sawmills do not pay the same cost for logs and can continue to operate profitably during lower lumber price cycles. We have wood fibre supply contracts through 2021 for approximately seventy percent of our raw material needs. Recent sawmill curtailments in B.C. have reduced the percentage of sawmill residual fibre under long term agreements. As outlined below, we have undertaken and will continue to undertake strategies to mitigate the reduction in fibre from our historic suppliers through various strategic initiatives.

Our partnerships and relationships with the governments, local communities, and First Nations are a core component of our values. We collaborate with a long-term view to positively contribute to the communities we operate in within all states and provinces, grow sources of available fibre, contain operating costs, and enhance regional safety and forest stewardship. While the impact from forest fires in B.C. in 2019 was limited, the regions in B.C. where we operate have experienced a significant impact from the mountain pine beetles and forest fires over recent years. Our experienced fibre team continues to explore additional salvage opportunities as our facilities can consume a broad range of residual fibre without impacting the quality of our product. We continue working with government agencies, First Nations, forest licensees and organizations like the Forests for Tomorrow Program and others to access this fibre and regenerate beetle and fire-damaged woodlands to support local communities, wildlife and the future of the forest sector in B.C. We are working with First Nations to continue advancing opportunities for fibre procurement and processing, and to increase the value they receive from their tenures in areas impacted by wildfires and mountain pine beetle infestations and create more jobs within their communities. We remain focused on diversifying our fibre basket. Once our High Level Facility comes online in 2020, we will have regionally diversified over 35% of our production capacity outside of B.C.

Our focus on operational excellence throughout our plant and logistics network is targeted on improvements in safety, production, and managing our fibre and cash conversion costs. Our facilities are able to process a broad range of residual biomass and we have increased our harvest residual fibre supplies and inventory for greater diversity of suppliers. The shift in fibre mix from sawmill residuals to harvest residuals results in higher fibre processing and cash conversion costs. As such, we have increased our harvest residual breakdown capabilities by increasing the number of biolog chippers from two units in 2018 to eight units in Q3 2019, to manage the fibre processing and cash conversion costs. Through the third quarter we have continued investing in biolog chippers, destoners and other specialized biomass processing equipment. Our facilities are able to process a broad spectrum of underutilized biomass residuals including whole biologs, bush grind, and other harvest residuals, in addition to more traditional biomass residuals such as shavings and sawdust. This investment, combined with our extensive operational knowledge, will help to drive cost effective production from harvest residual fibre sources.

We have access to a well-established rail infrastructure network in B.C. and Alberta, with all of our Canadian production facilities accessible along 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 (the “Fibreco Terminal”) via a long-term throughput contract. At our Aliceville Facility, wood pellets are cost-effectively shipped by barge downriver to the port of Mobile, Alabama where they are loaded directly onto cargo ships.

In addition to organic growth opportunities, we 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

Production and Fibre

The ongoing sawmill curtailments and reductions in sawmill residual deliveries in B.C. have continued to impact the operating performance of our production facilities in B.C. during Q3 2019. The Company's same facility production in the third quarter of 2019 was down over 14% compared to the third quarter of 2018, primarily as a result of the reduction in sawmill residuals and several planned facility maintenance shut downs. Of greatest impact was the temporary July closure of two Canfor sawmills with short notice and decreased supply of sawmill residuals from a number of suppliers ahead of our fibre procurement team’s ability to implement our full harvest residual transition strategy for our B.C. facilities. Fibre supply and mix constraints during Q3 2019 drove lower production volumes that resulted in reduced revenues, higher production costs, and lower net profit than expected. The processing of a wider mix of harvest residuals and biologs has impacted the efficiency of production at our B.C. facilities, resulting in decreased uptime, additional wear on production equipment, and higher repair and maintenance costs.

Production volumes in B.C. began modest improvement at the end of Q3 2019 as the mix and availability of fibre supply stabilized. This was primarily driven by our active operating management that increased harvest residuals and advanced our First Nations fibre procurement and processing strategy. We invested in inventories and greater harvest residual breakdown capability. Additionally, sawmills are now operating more consistently, albeit at reduced levels, allowing us to optimize our fibre and production flows. We have found sustainable supplies of harvest residuals to fill the gap of sawmill residuals where necessary for our B.C. mills in Q4 2019. With more consistent and sustainable fibre supply at our B.C. mills, we expect to see improvement in both fibre and cash conversion costs in Q4 2019 compared to Q3 2019. However, the continued weakness in lumber prices and high stumpage rates are continuing to apply pressure to the cost of available fibre supplies in B.C. We expect our B.C. facilities will continue to process a wider mix of harvest residuals in coming quarters, resulting in an ongoing impact to production levels, fibre and cash conversion costs.

Production outside of B.C. in Alberta and Alabama was not impacted by reduction in sawmill residual supply and we do not expect future supply impact from current low lumber prices.

Financial Highlights

Selected financial highlights include the following:

(In millions)		**Q3 2019 13 weeks**		**Q3 2018 13 weeks**		**YTD 2019 39 weeks**		**YTD 2018 39 weeks**
Revenue	$	92.6	$	87.6	$	286.3	$	243.7
Production costs	$	59.4	$	57.2	$	195.8	$	159.6
Distribution costs	$	14.5	$	12.4	$	40.2	$	33.5
Selling, general and administration expenses	$	4.8	$	5.4	$	13.7	$	18.9
Amortization	$	9.9	$	6.7	$	29.3	$	17.5
Net profit (loss)	$	(0.7)	$	1.5	$	(4.6)	$	(4.8)

New Off-take Agreements

On October 17, 2019 we entered into a new long-term, take-or-pay contract with Mitsui & Co. Ltd., a large diversified trading company in Japan, for 100,000 MTPA commencing in Q3 2023. The industrial wood pellets will be used by a biomass power generation plant in Japan. Japan is a supportive market for renewable energy, targeting 3.7% to 4.6% from biomass or 20 million MTPA in pellet equivalent terms, providing Pinnacle with a compelling opportunity to continue growing in this market.

As a result of this contract, we now have an average of 108% of our announced production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle, and Smithers Facilities, incremental production capacity of the Williams Lake and Meadowbank facilities and new production capacity of the High Level Facility. The majority of the new volume demand commences in 2021 and beyond. Our Contracted Backlog as at September 27, 2019 was $7.1 billion, representing a 3% increase over our Contracted Backlog as at June 28, 2019 of $6.9 billion and a 42% increase over our Contracted Backlog as at September 28, 2018 ($5.0 billion).

For YTD 2019, our three largest customers represented 83% of total revenue, at par with YTD 2018. As at September 27, 2019, our contracts with customers in Japan, the U.K., South Korea, and Europe represent 48%, 33%, 17% and 2%, respectively, of our Contracted Backlog.

New and Expanded Production Facilities

Entwistle Restart

We restarted the Entwistle dryer in early November as previously committed. We have finished the rebuild, restarted the furnace and dryer, and are in the process of commissioning the new equipment. Additional capital improvements, underpinned by the destoner project, are on schedule for completion in Q4 2019 and within budget. The Entwistle Facility continued partial operations during Q3 2019 at reduced levels with the production of pellets from dry fibre. We anticipate the final capital costs of the dryer rebuild will be as estimated at approximately $15.0 million. The other costs (the composition of which are explained in the notes below) are estimated to be approximately $10.0 million, of which $7.6 million has been incurred year-to-date. Pinnacle is actively working with customers and partners to mitigate the impacts of the anticipated 2019 production shortfall and continues to work with the Company’s insurance providers to determine the insurance recoveries available for the Entwistle Incident. At the end of Q3 2019, Pinnacle has recognized a total of $8.0 million (net of deductibles) in insurance recoverable related to property insurance and $8.5 million from business interruption insurance. We expect substantially all costs incurred to be recoverable through insurance, subject to deductibles.

The destoner capital project is on schedule, within budget, and expected to start commissioning during Q4 2019. This capital investment will enable the Entwistle Facility to improve fibre flow, reduce cash conversion and operating costs, and reduce downtime. At the end of Q3 2019, $4.5 million has been spent on this project, $2.3 million during Q3 2019, and is capitalized to construction in progress.

Aliceville

The first phase of our planned capital improvement plan of US$10.0 million was completed in Q3 2019. The capital investment focused on improvements to fibre flow, processing, and operating efficiency. Improvements in operating performance during September were a direct result of the completed capital improvements at Aliceville. At the end of Q3 2019 US$4.5 million has been spent on the scheduled capital improvement plan, US$1.1 million during Q3 2019. The second phase of our scheduled capital improvement plan is expected to commence in Q2 2020 and will focus on further improvements to fibre flow and processing to drive cost effective increases in production capacity. Our ongoing work with fibre suppliers has helped to manage fibre costs and moisture content requirements as production levels have steadily increased through the third quarter.

On August 5 and 6, 2019, US$53.7 million of New Markets Tax Credit (“NMTC”) debt was settled through a non-cash capital contribution to Westervelt Pellet I, LLC (“WPI LLC”). This represents all of the federal portion of the NMTC debt and reduces each of the amounts payable and receivable against the NMTC debt. The remaining balance of the NMTC debt of US$9.8 million is anticipated to be settled, as planned, in the first quarter of 2020.

High Level

Effective July 4, 2019 the Company entered into a limited partnership agreement with Tolko to build and operate the High Level Facility, a new industrial wood pellet production facility in High Level, Alberta. Pinnacle and Tolko will each own 50% of the facility which will be built on land owned by Tolko. Construction commenced on August 26, 2019 and will continue into Q4 2019 until winter conditions reduce the efficiency of construction activities. Construction will resume in Q2 2020 when weather conditions permit. Initial wood pellet production at the High Level Facility is expected to commence in the fourth quarter of Fiscal 2020. The capital cost of the facility is expected to be approximately $54.0 million, with 50% funded by Pinnacle and 50% by Tolko. The facility is expected to have a run-rate production capacity of 170,000 to 200,000 MTPA. At the end of Q3 2019, $7.8 million has been spent on this project, $6.6 million during Q3 2019. Pinnacle’s 50% share of these costs is capitalized to construction in progress on Pinnacle’s statement of financial position.

Williams Lake and Meadowbank

The upgrades at our Williams Lake Facility are progressing on schedule, focused on the installation of new fibre drying and air filtration equipment, as well as improvements to access infrastructure. Planning and design work is underway for the project at our Meadowbank Facility. These upgrades are particularly important while wood fibre supply in B.C. is under pressure as they will allow the two facilities to process a broader array of fibre, including harvest residual fibre sources, available in the region and achieve a series of air system, safety and environmental advancements that are expected to increase our overall production capacity by approximately 80,000 MTPA, respectively. Major dryer components are on site at Williams Lake and we expect commissioning to commence in Q1 2020. Commissioning for the upgrades at our Meadowbank Facility is expected to commence in Q3 2020.

Smithers

The Smithers Facility has achieved run rate production levels in Q3 2019 as expected. The Smithers Facility is performing well even with the increased mix of harvest residuals.

Appointment to Board of Directors

On November 12, 2019, the Company announced the appointment of Rex McLennan to serve on the Company's board of directors, effective November 12, 2019. Mr. McLennan is a seasoned independent corporate director and former C-level executive whose career includes over 30 years of leadership experience as a financial executive in large, complex, multinational resource-based companies. Mr. McLennan has held numerous senior level positions with both public and private companies during his career, including Imperial Oil Limited, Placer Dome Inc., Vancouver 2010 Olympic Organizing Committee, and Viterra Inc. Mr. McLennan has wide-ranging public company experience serving on the boards of several mining exploration and development companies, as well as Canadian private company board experience. He is a member of the Institute of Corporate Directors (Canada) and received his ICD.D designation in June 2013.

MARKET UPDATE

Global demand for industrial wood pellets remains strong as the shift toward renewable power generation continues, largely motivated by the introduction of regulatory frameworks that set targets and create incentives for the reduction of greenhouse gas 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 (UK), the Renewable Energy Directive (EU), the Best Energy Mix (Japan) and the Renewable Portfolio Standard (South Korea).

In the United Kingdom ("UK"), Drax Group plc have recently demonstrated pilot scale carbon capture and storage using wood pellets as biomass fuel in a program called BioEnergy Carbon Capture & Storage ("BECCS"). BECCS will provide carbon negative generation capability, which could encourage further policy support from the UK government, as it would allow the UK to reach carbon goals more quickly. BECCS technobiology could in time be employed beyond the UK.

Japanese demand remains strong as the various feed-in tariff (FIT) new build projects slowly begin to come on-line. Pinnacle volumes in Japan will grow consistent with market demand, most FIT new build projects in Japan have now contracted their fuel. The next growth wave for wood pellets in Japan is expected to be the conversion of existing coal fired stations to some degree of co-firing with biomass. This could create additional biomass demand in that country. The regulatory framework for this initiative is being currently developed in Japan.

Pinnacle's Korean independent power producers (IPP) counterparties are in the midst of constructing their new build power stations. Shipments are expected to start in the second half of 2020.

The European Union (EU) has started developing the guidance defining the process whereby the sustainability requirements recently acclaimed by the European Parliament will come into effect. This will further underpin the need for sustainable biomass in the EU and will support the demand for wood pellets in Europe. Pinnacle shipments to the Netherlands will start to ramp up in 2020 as the co-firing effort there intensifies. Three of our European contract counterparties including Drax and RWE will benefit to various degrees by the recent approval of the EU Commission of the UK Capacity Market in respect of its compliance with State Aid regulations. This will improve the profitability of those companies and make them even stronger going forward. We expect this to reflect positively on their business in the longer term and therefore on their ability to consume biomass beyond the current subsidy horizon.

The coal phase-out proposed by the German Commission on Growth, Structural Change and Employment is expected to lead to legislation by the end of 2019. This proposed new law should provide a phase-out of the use of coal for electrical generation in Germany, so that by 2038 coal would be abandoned as an electrical fuel. Currently about one third of German power is derived from coal fired power stations generating approximately 41 gigawatts of energy. It is anticipated that some of that generative capacity could be converted to run on biomass fuels in order that stability can continue to be provided to the electrical grid from dispatchable generation units.

OPERATIONAL UPDATE

Fibre

Fibre and fibre processing and haulage costs in Q3 2019 were impacted by curtailments in sawmill residual deliveries to our B.C. facilities stemming from unprofitable market lumber prices and log costs in the current sawmill market cycle. In late June, Canfor announced the month long curtailments of two of our large supply sawmills, Plateau and Houston. We reacted quickly to ensure impacted facilities could operate as much as possible, obtaining harvest and sawmill residuals at higher spot prices and haulage and processing costs than our long-term contracted sawmill residuals. In Q3 2019 some of our facilities that only process sawdust and shavings ran below capacity because of lack of suitable available fibre for those facilities. Some of the short term available fibre had more silica in it than our typical supply, impacting repair and maintenance costs. Some of the available fibre proximate to individual facilities was not well suited to the existing capital equipment at the facilities and required further trucking to another facility or third party chipping and grinding. During this time of heavy transition where a portion of supply is short term in nature, trucking costs are at higher market rates. On average, harvest residuals and biologs have higher moisture content than sawmill residuals, so drying costs are higher and trucking costs for equivalent oven dried tons (ODT's) of fibre are greater. While the fibre team worked to ensure fibre availability for continued production at our B.C. facilities, these factors led to higher fibre , fibre delivery, and repair and maintenance costs.

As Q3 2019 continued some of the B.C. sawmill owners started communicating clearer Q4 2019 operating plans and gave us better forecast data to understand our medium term requirements for supplemental fibre. Our partner sawmills in B.C. have worked cooperatively with us to ensure our facilities have improved visibility and replacement fibre where possible. With this information, our fibre team is working to source cleaner, lower cost, consistent sources of replacement harvest residuals and lower cost, consistent third party fibre chipping and grinding sources to fill identified gaps. Additionally, we have increased our own capital investment in grinding and chipping and are further investigating additional destoning and chipping capability.

Insufficient or inconsistent fibre sources drives up our cash conversion costs and lowers production output, so we have invested in additional fibre storage and inventories near facilities with supply vulnerabilities. We will be increasing fibre deliveries to the B.C. facilities by a forecasted 20% in Q4 2019 compared to the same period in 2018 to build this inventory. We do not expect the investment in additional working capital to be significant to the balance sheet. With increased visibility and stability of the new supply sources and flows, we will work to put in place more cost effective trucking. On September 15, 2019 the B.C. government announced further restrictions to the on site burning of harvest residuals, which should increase availability of economic supply. The harvest residuals are inexpensive but require more expensive haulage and fibre breakdown. Our fibre team is actively pursuing additional harvest residuals at more competitive pricing.

Since some of the sawmills that have not yet announced curtailments are facing the same cyclical profit pressures as others, there is risk that there will be announcements in the coming months until lumber prices increase further. B.C. stumpage costs for sawmill logs are not expected to decrease under the current formula until mid-2020. While further announcements and closures are likely, we are better prepared to manage impacts than we were during the period of heavy change in Q3 2019. Our fibre team will continue to negotiate and manage costs in the coming months.

As previously stated in the second quarter, to ensure long-term fibre security in B.C. we continue to collaborate with government, local communities, and First Nations to expand fibre availability and reduce costs with programs that enhance community fire protection, regional safety, and forest stewardship. The regions in which we operate have experienced significant impacts from mountain pine beetle and forest fires, and unlike many primary manufacturers, this provides for additional timber salvage opportunities as we can consume this fibre without impacting the quality of our product. We are working with government agencies, First Nations, forest licensees and organizations like the Forests for Tomorrow Program and others to access this fibre and regenerate beetle and 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 within their communities. To ensure long-term fibre security and margin stability, we now have approximately 35% of our run-rate production capacity outside of B.C.

Existing Production Facilities

The performance of our B.C. facilities in Q3 2019 was impacted by the curtailments in sawmill residual deliveries and limited availability of alternate fibre supplies. As discussed previously, the shortage of sufficient volumes of consumable fibre resulted in lower production volumes than expected during the third quarter. Constraints around the mix and quality of available fibre throughout the quarter further impacted production performance at our B.C. facilities and drove high fibre, fibre processing, and cash conversion costs as a higher proportion of harvest residuals and biologs were consumed to maintain operations as much as possible. Our B.C. facilities perform optimally when consuming high quality sawmill residual fibre. The consumption of an increasing proportion of coarse, wet, harvest residual and other low quality fibre supplies increases the wear on production equipment and reduces production efficiency, resulting in higher fibre processing, plant operating, and repair and maintenance costs, and increased facility downtime to maintain and repair production equipment.

The Burns Lake, Houston and Smithers facilities had increased maintenance shutdowns throughout Q3 2019 as we managed fibre supply and quality constraints. Consumption of an increasing proportion of hog, chipped biolog, and other harvest residual fibre sources through the quarter drove high fibre, fibre processing, and repair and maintenance costs. Facility downtime in July was driven by fibre supply shortages, while downtime in August and September was caused by a combination of limited fibre supplies and increasing repairs and maintenance from processing an increasing proportion of lower quality fibre. The facilities are building biolog inventory to secure a consistent fibre supply into the fourth quarter. Operations is focused on managing production bottlenecks due to the fibre mix available for processing while containing fibre processing and repair and maintenance costs to meet production targets.

Similarly, the Meadowbank and Williams Lake facilities faced planned and unplanned shutdowns during the third quarter as a result of fibre supply constraints and a challenging mix of fibre available for processing. Both facilities are intended to process sawmill residual fibre for optimal production. Capital projects underway at the Meadowbank and Williams Lake facilities are designed to facilitate cost effective processing of harvest residual fibre supplies.

During Q3 2019 proactive measures were taken with B.C. sawmill industry companies to partially mitigate the impact of increased fibre and processing costs. We are actively collaborating with our partners with whom we jointly own wood pellet production facilities, namely Canfor Corporation (“Canfor”), West Fraser, and Tolko Industries as well as other major suppliers, including Interfor Corporation and Weyerhaeuser Company to further refine and optimize the fibre procurement mitigation strategies.

New and Expanded Production Facilities

High Level

Construction at our High Level Facility commenced on August 26, 2019. The foundation of the Facility is expected to be under construction through November until winter weather conditions require a halt to construction. Construction of the High Level Facility is on budget and on schedule. Initial wood pellet production at the High Level Facility is expected to commence in Q4 2020. At the end of Q3 2019, $7.8 million has been spent on this project, $6.6 million during Q3 2019. Pinnacle’s 50% share of these costs is capitalized to construction in progress on Pinnacle’s statement of financial position.

Entwistle

We have restarted the dryer at Entwistle in early November as previously committed. We have finished the rebuild, restarted the furnace and dryer, and are in the process of commissioning the new equipment. Partial operations at the Entwistle Facility at reduced levels with production of pellets from dry fibre have continued through the third quarter. We anticipate all expenses incurred to repair the facility and return to its previous production commissioning curve will be recoverable through insurance, subject to deductibles.

The destoner project is expected to be commissioned during the fourth quarter and will enable the Entwistle Facility to improve fibre flow, reduce cash conversion and operating costs, and reduce downtime. At the end of Q3 2019, $4.5 million has been spent on this project, $2.3 million during Q3 2019, and is capitalized to construction in progress.

Smithers

The Smithers Facility has continued to exceed our initial production expectations and achieved full run-rate production of 125,000 MTPA in Q3 2019. The Smithers Facility is performing well even with the increased fibre diversity.

Aliceville

Our planned capital improvement plan is on schedule and progressing as intended. The first phase of the project was completed in July 2019. US$4.5 million of the US$10.0 million budget has been spent to date in fiscal 2019, US$1.1 million was spent in Q3 2019. Our ongoing work with fibre suppliers has helped to manage fibre costs and moisture content requirements as production levels have steadily increased through the third quarter. The second phase of our planned capital improvement plan is expected to commence in Q2 2020.

Williams Lake and Meadowbank

The upgrades at our Williams Lake Facility continued through Q3 2019 as planned. Major dryer components are on site and commissioning of the Williams Lake Facility is expected in Q1 2020, as previously communicated. Planning and design for the upgrades at our Meadowbank Facility continued through Q3 2019. Commissioning of the upgraded facility at Meadowbank is expected to begin in Q3 2020.The installation of new fibre drying and air filtration equipment, as well as improvements to access infrastructure, will result in improved facility operating efficiencies, lower emissions, local employment opportunities, and greater overall facility safety.

Production Capacity to Meet New and Extended Off-take Agreements

With the new long-term supply agreements contracted in 2019, 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, we have established a well-defined development blueprint for developing, constructing and operating new production facilities and expanding/converting existing production facilities. Under this Development Blueprint, 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 Williams Lake, Meadowbank, and High Level Facilities reach full run-rate production, our annual production capacity will have grown by 250,000 MTPA, an increase of 11%, from our annual run-rate production capacity at the beginning of Fiscal 2019.

FINANCIAL HIGHLIGHTS

We refer the reader to the section entitled "Non-IFRS Measures" 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.

Selected financial highlights include the following:

(In millions)	**Q3 2019 13 weeks**	**Q3 2018 13 weeks**	**YTD 2019 39 weeks**	**YTD 2018 39 weeks**
Revenue	$ 92.6	$ 87.6	$ 286.3	$ 243.7
Production costs	$ 59.4	$ 57.2	$ 195.8	$ 159.6
Distribution costs	$ 14.5	$ 12.4	$ 40.2	$ 33.5
Selling, general and administration expenses	$ 4.8	$ 5.4	$ 13.7	$ 18.9
Amortization	$ 9.9	$ 6.7	$ 29.3	$ 17.5
Net profit (loss)	$ (0.7)	$ 1.5	$ (4.6)	$ (4.8)
Adjusted Gross Margin*	$ 18.7	$ 17.9	$ 50.9	$ 51.0
IFRS 16 impact	$ 1.8	$ N/A	$ 5.4	$ N/A
Entwistle Incident impact	$ 2.6	$ N/A	$ 2.3	$ N/A
Adjusted Gross Margin* (excl. above impact)	$ 14.3	$ 17.9	$ 43.2	$ 51.0
Adjusted Gross Margin Percentage*	20.2%	20.5%	17.8%	20.9%
Adjusted EBITDA*	$ 14.3	$ 14.5	$ 38.7	$ 41.3
IFRS 16 impact	$ 1.8	$ N/A	$ 5.4	$ N/A
Entwistle Incident impact	$ 2.1	$ N/A	$ 0.7	$ N/A
Adjusted EBITDA* (excl. above impact)	$ 10.3	$ 14.5	$ 32.6	$ 41.3
Free Cash Flow*	$ 8.0	$ 5.0	$ 17.0	$ 24.0
IFRS 16 impact	$ 1.2	$ N/A	$ 3.7	$ N/A
Entwistle Incident impact	$ 2.1	$ N/A	$ 0.7	$ N/A
Free Cash Flow* (excl. above impact)	$ 4.7	$ 5.0	$ 12.7	$ 24.0
(In billions)	**Sept 27, 2019**	**Sept 28, 2018**		
Contracted Backlog	$ 7.1	$ 5.0		

* See "Non-IFRS Measures".

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. See the "Financial Risk Factors" section of this MD&A and the risk factors identified in our AIF.

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 recognised 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 recognised in either a preceding or following interim fiscal period.

Our expected future industrial wood pellet sales under our Contracted Backlog as of September 27, 2019 is as follows ($ billions):

Remainder of Fiscal 2019	$ 0.1
Fiscal 2020	0.5
Fiscal 2021 and thereafter	6.5
Total product sales under Contracted Backlog	**$ 7.1**

FACTORS IMPACTING COMPARABILITY OF OUR FINANCIAL RESULTS

Our future results of operations and cash flows may not be comparable to our historical consolidated results of operations and cash flows, principally for the following reasons:

Entwistle Restart

We restarted the dryer at Entwistle as committed in early November. We have finished the rebuild, restarted the furnace and dryer, and are in the process of commissioning the new equipment. As previously disclosed, our Entwistle Facility sustained damage to its dryer and surrounding equipment on February 11, 2019 and caused the Facility to stop production. On March 29, 2019, the Entwistle Facility resumed partial operations using dry fibre as we commenced rebuilding the dryer and the surrounding equipment. We have been actively working with our customers and partners to mitigate the impact of the anticipated 2019 production shortfall. We have been working with our insurance providers to determine the insurance recoveries available for the capital costs incurred to rebuild the dryer and the related damaged equipment, incident response costs, fixed overhead costs for the dryer side, and costs related to business continuity and lost profits from business interruption.

In Q1 2019, $9.4 million of asset impairment charges were recorded in connection with the Entwistle Incident, reducing property, plant and equipment on the statement of financial position and lowering net profit for the period. The impact has been partially offset by property insurance proceeds of $8.0 million (net of deductibles) received year-to-date which has been recognised in net profit (loss). At the end of Q3 2019, a total of $8.5 million for business interruption insurance has been recognised in net profit (loss) as a reduction of production costs, $4.0 million was recognised in Q3 2019. The $4.5 million recognised in Q2 2019 was received in the current quarter.

Total capital costs and other expenses required to replace the dryer and restore the Entwistle Facility to the planned operating run rate are estimated to be approximately $25.0 million. The capital asset portion of this amount is estimated to be approximately $15.0 million, of which $8.9 million has been incurred and capitalized year-to-date. Approximately $10.0 million of remaining costs relate to fixed overhead, other expenses, and incident response costs, of which $7.6 million has been incurred year-to-date. Of the $7.6 million of fixed overhead, other expenses and incident response costs incurred year-to-date, $1.8 million was recorded in Q3 2019. The remaining amount will be incurred through the end of Fiscal 2019 as we return the Entwistle Facility to its pre-incident commissioning curve.

As part of business continuity activities while the Entwistle Facility produces reduced volumes, we will undertake mitigating activities and may incur additional costs as we purchase third party wood pellets, work with customers to repurchase wood pellet obligations, source additional dry fibre for the Entwistle Facility, and source additional fibre at our other facilities to increase production. Business continuity costs, as incurred, may reduce gross margin and net income in Fiscal 2019 until the Entwistle Facility resumes full operations (including the dryer area). Business continuity costs cannot be fully estimated at this time as they are subject to negotiation and market conditions.

While we expect substantially all of the capital and operational costs to be recoverable under our insurance policies (subject to applicable deductibles), the timing of these costs and their associated insurance recoveries may not match, which would result in fluctuations in other income, cost of goods sold, and net income from period to period. Given the likely timing mismatch, our results of operations and cash flows, as well as our non-GAAP financial measures, may not be comparable to those for previously reported periods.

Implementation of IFRS 16

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

We have elected to apply the modified retrospective approach upon early adoption at December 29, 2018, measuring the ROU asset at an amount equal to the lease liability, which resulted in no change to deficit. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed in Note 2 to the Consolidated Financial Statements. Additional information is outlined in the section "CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS - Recently Adopted Significant Accounting Standards".

IPO and capital structure

We reorganised our capital structure in conjunction with the IPO on February 6, 2018. Q1 2018 included gains and losses on share and debt conversions and their related income tax impacts.

RESULTS OF OPERATIONS

Analysis of Results for Q3 2019 to Q3 2018

The following section provides an overview of our financial performance in Q3 2019 compared to Q3 2018.

(In thousands)	Q3 2019 13 weeks	Q3 2018 13 weeks	Q3 2019 vs. Q3 2018
MT of industrial wood pellets sold	**423**	**421**	**2**
Revenue	**$ 92,552**	**$ 87,606**	**$ 4,946**
Costs and expenses			
Production	59,355	57,222	2,133
Distribution	14,457	12,360	2,097
Selling, general and administration	4,808	5,374	(566)
Amortization	9,943	6,719	3,224
	88,563	**81,675**	**6,888**
Profit before finance costs and other income (expense)	**3,989**	**5,931**	**(1,942)**
Finance cost	(4,813)	(4,360)	(453)
Other income (expense)	(71)	399	(470)
	(4,884)	**(3,961)**	**(923)**
Net income (loss) before income taxes	**(895)**	**1,970**	**(2,865)**
Income tax (expense) recovery			
Deferred income taxes	169	(454)	623
Net profit (loss)	**$ (726)**	**$ 1,516**	**$ (2,242)**
Impact of:			
IFRS 16**	(626)	N/A	(626)
Entwistle Incident*	1,549	N/A	1,549
Net profit (loss) (excluding above impact)	**$ (1,649)**	**$ 1,516**	**$ (3,165)**

* Tax effected at 27%.
** Q3 2019 results include the adoption of IFRS 16 *Leases*, from December 30, 2018, on a prospective basis. Comparative periods have not been restated.

Revenue

Revenue for Q3 2019 totaled $92.6 million, an increase of $4.9 million, or 5.6%, compared to $87.6 million for Q3 2018. This increase was primarily attributable to higher selling prices per MT and a higher proportion of cost, insurance and freight (CIF) contracts. The positive contribution to revenue from the production and sale of higher volumes of pellets from the Smithers and Aliceville facilities, each of which contributed no production volume in Q3 2018, was offset by lower production volumes at our B.C. facilities due to the ongoing sawmill curtailments and reductions in sawmill residual deliveries.

Production

Production costs were $59.3 million for Q3 2019, an increase of $2.1 million, or 3.7% compared to $57.2 million for Q3 2018. The increase was primarily due to higher fibre costs, higher cash conversion costs, and increased costs incurred for third party wood pellet purchases. Business interruption insurance recoveries of $4.0 million for lost net profit from the Entwistle Incident were recorded in production costs. This amount offsets fixed overhead and incident response costs incurred from the Entwistle Incident of $1.4 million in Q3 2019 that are recorded in production costs.

As discussed above, higher fibre costs were primarily related to a shift in fibre mix due to a reduction in sawmill residuals during Q3 2019. Higher cash conversion costs were driven by fibre mix constraints which resulted in additional repairs and maintenance expenses for production equipment.

Distribution

Distribution costs were $14.5 million for Q3 2019, an increase of $2.1 million, or 17.0% compared to $12.4 million for Q3 2018. Distribution costs had a negative variance primarily as a result of a higher mix of CIF contracts and higher shipping contract prices in Q3 2019 as compared to Q3 2018.

Selling, general and administration

SG&A expenses were $4.8 million for Q3 2019, a decrease of $0.6 million compared to $5.4 million for Q3 2018. The decrease was primarily due to a decrease of $0.5 million for stock-based compensation and a decrease of $0.5 million for legal and professional fees, partially offset by an increase of $0.4 million for personnel costs due to the expansion of operations.

Amortization

Amortization expense was $9.9 million for Q3 2019, an increase of $3.2 million compared to $6.7 million for Q3 2018. The increase was primarily attributable to the additional amortization for property, plant and equipment related to the acquisition of the Aliceville Facility in Q4 2018 and the commencement of commercial production at the Smithers Facility during Q1 2019. In addition, the implementation of IFRS 16 starting in Q1 2019 resulted in an additional $2.0 million of depreciation expense in Q3 2019 related to the recognition of right-of-use assets.

Finance cost

Finance costs were $4.8 million for Q3 2019, an increase of $0.4 million compared to $4.4 million for Q3 2018. This increase was primarily due to an increase of $1.9 million in interest paid on term debt and revolver loan; an increase of $0.7 million in amortization of deferred financing fees and an increase of $0.6 million in interest incurred on lease liabilities due to the implementation of IFRS16 in 2019. These increases were partially offset by a $1.8 million fluctuation in the fair value of foreign exchange derivatives contracts (a $0.3 million fair value gain was recognised in YTD 2019 compared with a $1.5 million fair value loss in YTD 2018); a $0.6 million fluctuation in the foreign exchange (a $0.5 million gain was recognised in YTD 2019 compared with a $0.1 million loss in YTD 2018) and a decrease of $0.4 million in other finance costs.

Income taxes

Deferred income tax recovery was $0.2 million for Q3 2019, compared to a deferred income tax expense of $0.5 million in the prior year, primarily due to the net loss before tax in current quarter compared to a net profit before tax in prior year.

Net profit (loss) and comprehensive income

Comprehensive income was $28 thousand in Q3 2019 compared to comprehensive income of $1.5 million in Q3 2018. Net loss after tax was $0.7 million in current quarter compared to a net profit of $1.5 million in prior year due to the factors discussed above. The variance in comprehensive income was primarily due to a $0.8 million increase in foreign exchange gain on foreign operations, net of tax in current quarter.

Adjusted Gross Margin Percentage*

(In thousands except per MT amounts)	Q3 2019 13 weeks	Q3 2018 13 weeks	Q3 2019 vs. Q3 2018
Operating income	**$ 3,989**	**$ 5,931**	**$ (1,942)**
Selling, general and administration	4,808	5,374	(566)
Amortization	9,943	6,719	3,224
Equity earnings in HPLP	181	233	(52)
Non-controlling interests	(209)	(332)	123
Adjusted Gross Margin	**$ 18,712**	**$ 17,925**	**$ 787**
Adjusted Gross Margin per MT**	**$ 44.24**	**$ 44.15**	**$ 0.09**
Adjusted Gross Margin Percentage	**20.2%**	**20.5%**	**(0.3%)**
Impact of:			
IFRS 16	1,798	N/A	1,798
Entwistle Incident	2,578	N/A	2,578
Adjusted Gross Margin (excluding above impact)	**$ 14,336**	**$ 17,925**	**$ (3,589)**

* 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 was $18.7 million and Adjusted Gross Margin Percentage was 20.2% for Q3 2019 ($44.24/MT), compared to Adjusted Gross Margin of $17.9 million and Adjusted Gross Margin Percentage of 20.5% in Q3 2018 ($44.15/MT). The Adjusted Gross Margin Percentage in Q3 2019 was 0.3% lower than that in Q3 2018 primarily due to negative distribution cost variance of 2.2% and negative production cost variance of 2.0%, partially offset by a positive revenue variance of 3.9%. Production costs in Q3 2019 include $1.4 million of costs associated with fixed overhead and incident response costs for the Entwistle Incident (Q2 2019 - $2.7 million). These costs are offset by $4.0 million of business interruption insurance receivable recorded in the current quarter. Incremental production costs were incurred at other facilities as a result of fibre mix constraints.

As a result of applying IFRS 16, Adjusted Gross Margin for Q3 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Excluding the impact of IFRS 16, Adjusted Gross Margin in Q3 2019 was $16.9 million. Excluding the impact of the Entwistle Incident and of applying IFRS 16, Adjusted Gross Margin in Q3 2019 was $14.3 million.

*Adjusted EBITDA**

(In thousands except per MT amounts)	Q3 2019 13 weeks	Q3 2018 13 weeks	Q3 2019 vs. Q3 2018
MT of industrial wood pellets sold	**423**	**421**	**2**
Net profit (loss)	**$ (726)**	**$ 1,516**	**$ (2,242)**
Income tax (expense) recovery	(169)	454	(623)
Finance costs excluding shareholder debentures (1)	5,321	4,640	681
Amortization of equipment and intangible assets (2)	9,597	6,667	2,930
EBITDA	**$ 14,023**	**$ 13,277**	**$ 746**
EBITDA Adjustments			
Stock-based compensation expense	255	720	(465)
(Gain) loss on disposal of PP&E (3)	188	(59)	247
Plant curtailment costs	-	47	(47)
Other items (4)	(210)	469	(679)
Total Adjustments	**233**	**1,177**	**(944)**
Adjusted EBITDA	**$ 14,256**	**$ 14,454**	**$ (198)**
Adjusted EBITDA per MT**	**$ 33.70**	**$ 35.60**	**$ (1.90)**
Impact of:			
IFRS 16	1,798	N/A	1,798
Entwistle Incident	2,121	N/A	2,121
Adjusted EBITDA (excluding above impact)	**$ 10,337**	**$ 14,454**	**$ (4,117)**

* 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 costs exclude realized (gain) loss on derivatives and foreign exchange.

(2) Amortization of property, plant, and equipment ("PP&E") includes our share of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

(3) Loss on disposal and impairment of PP&E includes our share of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

(4) Other items include professional fees incurred in connection with the IPO in Q1 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

Adjusted EBITDA for Q3 2019 was $14.3 million, $0.2 million lower compared to $14.5 million in Q3 2018. Increased revenue in Q3 2019 was more than offset by higher production costs (including fibre and conversion costs due principally to fibre mix constraints which increased repair and maintenance costs) as well as higher distribution costs and other expenses.

In Q3 2019, $1.9 million of expenses were incurred related to the Entwistle Incident for fixed overhead, other expense, and incident response. In Q3 2019, we also recognized $4.0 million of insurance proceeds receivable in connection with the Entwistle Incident for business interruption insurance proceeds that offset production costs for lost net profit.

Excluding the impact of the $1.9 million costs incurred in Q3 2019 associated with the Entwistle Incident related to fixed overhead, incident response costs and other expenses and the $4.0 million of business interruption insurance proceeds recognised, Adjusted EBITDA was $12.2 million, or $28.69/MT.

As a result of applying IFRS 16, Adjusted EBITDA for Q3 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17.

Excluding the impact of the Entwistle Incident and of applying IFRS 16, Adjusted EBITDA for Q3 2019 was $10.3 million, or $24.43/MT.

Free Cash Flow*

(In thousands)	Q3 2019 13 weeks	Q3 2018 13 weeks	Q3 2019 vs. Q3 2018
Net profit (loss)	**$ (726)**	**$ 1,516**	**$ (2,242)**
Income tax (expense) recovery [(1)]	(169)	454	(623)
Finance costs excluding shareholder debentures [(2)]	5,321	4,640	681
Amortization of equipment and intangible assets [(3)]	9,597	6,667	2,930
EBITDA	**$ 14,023**	**$ 13,277**	**$ 746**
Stock-based compensation expense	255	720	(465)
(Gain) Loss on disposal of PP&E [(4)]	188	(59)	247
Plant curtailment costs	-	47	(47)
Other items [(5)]	(210)	469	(679)
Adjusted EBITDA [(6)]	**$ 14,256**	**$ 14,454**	**$ (198)**
Maintenance capital expenditures [(7)]	(2,018)	(3,132)	1,114
Interest and finance costs, net [(8)]	(4,225)	(2,365)	(1,860)
Mandatory amortization [(9)]	-	(4,000)	4,000
Free Cash Flow	**$ 8,013**	**$ 4,957**	**$ 3,056**
Impact of:			
IFRS 16	1,205	N/A	1,205
Entwistle Incident	2,121	N/A	2,121
Free Cash Flow (excluding above impact)	**$ 4,687**	**$ 4,957**	**$ (270)**

* See "Non-IFRS Measures".

Notes:

(1) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 28, 2018, we had unused non-capital loss carry forwards of $92.1 million. We do not anticipate a requirement to pay income tax before 2021.

(2) Finance costs exclude realized (gain) loss on derivatives and foreign exchange.

(3) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

(4) Loss on disposal and impairment of PP&E includes our share of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

(5) Other items include professional fees incurred in connection with the IPO in Q1 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

(6) See definition of Adjusted EBITDA in the section entitled "Non-IFRS Measures" and reconciliation of Adjusted EBITDA to net income in "Results of Operations".

(7) "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 High Level Facility to require $3.7 million in annual maintenance capital expenditures.

(8) Reflects post-IPO capital structure, and therefore excludes interest and financing costs on historical credit facilities that were repaid in connection with the IPO.

(9) There were no mandatory amortization payments made in Q3 2019 due to the debt refinancing completed in June 2019. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free Cash Flow for Q3 2019 was $8.0 million, an increase of $3.0 million from $5.0 million in Q3 2018. The increase is primarily due to a decrease of $1.1 million in maintenance capital expenditures and a decrease in mandatory amortization of $4.0 million, partially offset by an increase in interest and finance costs of $1.9 million and a decrease in Adjusted EBITDA by $0.2 million.

As a result of applying IFRS 16, Free Cash Flow for Q3 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17, partially offset by a decrease of $0.6 million related to interest costs (increase in net interest and finance costs includes interest payment expense on capital leases under IFRS 16 of $0.6 million).

Excluding the impact of the Entwistle Incident and of applying IFRS 16, Free Cash Flow in Q3 2019 was $4.7 million.

Analysis of Results for YTD 2019 to YTD 2018

(In thousands)	YTD 2019 39 weeks	YTD 2018 39 weeks	YTD 2019 vs. YTD 2018
MT of industrial wood pellets sold	**1,303**	**1,134**	**169**
Revenue	**$ 286,343**	**$ 243,712**	**$ 42,631**
Costs and expenses			
Production	195,811	159,635	36,176
Distribution	40,228	33,528	6,700
Selling, general and administration	13,748	18,856	(5,108)
Amortization	29,327	17,458	11,869
	279,114	**229,477**	**49,637**
Profit before finance costs and other income (expense)	**7,229**	**14,235**	**(7,006)**
Finance cost	(18,975)	(4,783)	(14,192)
Other income (expense)	5,726	(17,264)	22,990
	(13,249)	**(22,047)**	**8,798**
Net loss before income taxes	**(6,020)**	**(7,812)**	**1,792**
Income tax recovery			
Deferred	1,410	3,058	(1,648)
Net loss	**$ (4,610)**	**$ (4,754)**	**$ 144**
Impact of:			
IFRS 16**	(1,397)	N/A	(1,397)
Entwistle Incident*	(558)	N/A	(558)
Net loss (excluding above impact)	**$ (2,655)**	**$ (4,754)**	**$ 2,099**

* Tax-effected at 27%.

** YTD 2019 results include the adoption of IFRS 16 Leases, from December 30, 2018, on a prospective basis. Comparative periods have not been restated.

Revenue

Revenue for YTD 2019 totaled $286.3 million, an increase of $42.6 million, or 17.5%, compared to $243.7 million for YTD 2018. This increase was attributable to higher sales volume and an increase in the average sales price per MT.

Production

Production costs were $195.8 million for YTD 2019, an increase of $36.2 million from $159.6 million for YTD 2018, primarily due to an increase in sales volume, higher fibre and cash conversion costs and increased costs incurred for third party wood pellet purchases.

The Entwistle Incident resulted in $6.2 million of costs for fixed overhead and incident response costs in production costs for YTD 2019. These costs were offset by the receipt of $8.5 million of business interruption insurance recognised in production costs for YTD 2019.

Distribution

Distribution costs were $40.2 million for YTD 2019, an increase of $6.7 million compared to $33.5 million for YTD 2018, reflecting a $4.1 million increase in shipping costs and a $2.6 million increase in port, demurrage and other costs as a result of higher shipment volumes, rate increases, and port delays.

Selling, general and administration

SG&A expenses decreased $5.1 million from $18.8 million for YTD 2018 to $13.7 million for YTD 2019. After normalizing SG&A for YTD 2018 to take into account $5.0 million related to incremental stock-based compensation expense incurred in connection with the IPO, $1.2 million and $0.3 million of professional fees incurred in connection with the IPO and the Secondary Offering respectively, and $0.9 million of legal fees related to a damage claim against one of our equipment suppliers, SG&A expenses increased by approximately $2.3 million from YTD 2018, primarily as a result of increased personnel, wage increases, and related travel and general expense.

Amortization

Amortization expense increased by $11.9 million from $17.4 million in YTD 2018 to $29.3 million in YTD 2019. The increase was primarily attributable to the commencement of amortization for property, plant and equipment related to the start-up of commercial production at the Entwistle Facility at the end of Q2 2018, the acquisition of the Aliceville Facility in Q4 2018, and the commencement of commercial production at the Smithers Facility during Q1 2019. In addition, the implementation of IFRS 16 in 2019 resulted in an additional $5.6 million of depreciation expenses in YTD 2019 related to the recognition of right-of-use assets. During YTD 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.

Finance cost

Finance cost was $19.0 million in YTD 2019, an increase of $14.2 million from $4.8 million in YTD 2018. This increase was primarily due to a $6.5 million increase in interest on our credit facilities (reflecting increased draw on credit facilities to fund production capacity growth and significant investment in the Entwistle, Aliceville, and Smithers Facilities), a $5.2 million fluctuation in the fair value of foreign exchange derivative contracts (a $3.2 million fair value loss was recognised in YTD 2019, compared with a $2.0 million fair value gain recognised in YTD 2018), a $1.7 million increase in other finance costs primarily related to interest on lease payments from the implementation of IFRS 16, an increase in amortization of deferred finance fees of $0.7 million and unrealized loss on foreign exchange of $0.8 million.

Other income (expense)

Other income was $5.7 million in YTD 2019, an increase of $23.0 million compared to other expense of $17.3 million for YTD 2018. YTD 2019 other income includes an $8.0 million gain on insurance recovery related to the Entwistle Incident and a $6.5 million gain on the settlement of a legal claim against a former equipment supplier and a $0.9 million equity earnings from HPLP, partially offset by a $9.4 million impairment to machinery and other equipment related to the Entwistle Incident and a $0.3 million loss on disposal of property, plant and equipment. YTD 2018 other expense was primarily due to a $21.9 million loss on conversion of shareholders' debentures, offset by a $3.6 million gain on conversion of Class B and Class D common shares, upon pre-closing capital changes completed in connection with the IPO and $0.9 million in equity earnings from HPLP.

Income taxes

Deferred income tax recovery was $1.4 million for the nine months period in 2019 compared to $3.1 million for the prior year. The 2018 recovery was primarily attributable to recoveries on losses made on the conversion of shareholders' debentures into Common Shares upon the closing of the IPO.

Net loss and comprehensive loss

Comprehensive loss was $5.1 million in YTD 2019, an increase of $0.3 million compared to comprehensive loss of $4.8 million in YTD 2018. Net loss after income taxes was $0.2 million lower than YTD 2018 as explained above, the variance in comprehensive loss was primarily due to a $0.5 million increase in foreign exchange loss on foreign operations, net of tax.

Adjusted Gross Margin Percentage*

(In thousands except per MT amounts)	YTD 2019 39 weeks	YTD 2018 39 weeks	YTD 2019 vs. YTD 2018
Operating income	**$ 7,229**	**$ 14,235**	**$ (7,006)**
Selling, general and administration	13,748	18,856	(5,108)
Amortization	29,327	17,458	11,869
Equity earnings in HPLP	888	906	(18)
Non-controlling interests	(337)	(477)	140
Adjusted Gross Margin	**$ 50,855**	**$ 50,978**	**$ (123)**
Adjusted Gross Margin per MT**	**$ 39.03**	**$ 45.56**	**$ (6.53)**
Adjusted Gross Margin Percentage	**17.8%**	**20.9%**	**(3.2%)**
Impact of:			
IFRS 16	5,394	N/A	5,394
Entwistle Incident	2,293	N/A	2,293
Adjusted Gross Margin (excluding above impact)	**$ 43,168**	**$ 50,978**	**$ (7,810)**

* 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 was $50.9 million and Adjusted Gross Margin Percentage was 17.8% for YTD 2019 ($39.03/MT), compared to adjusted Gross Margin of $51.0 million and Adjusted Gross Margin Percentage of 20.9% in YTD 2018 ($45.56/MT). Production costs include $6.2 million of costs associated with fixed overhead and incident response costs for the Entwistle Incident, offset by an amount of $8.5 million for business interruption insurance proceeds. Excluding the costs associated with the Entwistle Incident, net of insurance, Adjusted Gross Margin was $48.6 million or $37.27/MT in YTD 2019.

As a result of applying IFRS 16, Adjusted Gross Margin for YTD 2019 has increased by $5.4 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Excluding the impact of IFRS 16, Adjusted Gross Margin in YTD 2019 was $45.5 million. Excluding the impact of the Entwistle Incident and of applying IFRS 16, Adjusted Gross Margin in YTD 2019 was $43.2 million.

*Adjusted EBITDA**

(In thousands except per MT amounts)	YTD 2019 39 weeks		YTD 2018 39 weeks		YTD 2019 vs. YTD 2018	
MT of industrial wood pellets sold		**1,303**		**1,134**		**169**
Net loss	**$**	**(4,610)**	**$**	**(4,754)**	**$**	**144**
Income tax recovery		(1,410)		(3,058)		1,648
Finance costs (1)		20,394		5,164		15,230
Amortization of equipment and intangible assets (2)		28,082		17,190		10,892
EBITDA	**$**	**42,456**	**$**	**14,542**	**$**	**27,914**
EBITDA Adjustments						
Stock-based compensation expense		884		5,099		(4,215)
Loss on disposal and impairment of PP&E (3)		9,980		173		9,807
Insurance recovery on Entwistle Incident		(8,000)		-		(8,000)
Gain on settlement of legal claim		(6,461)		-		(6,461)
Plant curtailment costs		-		155		(155)
Loss on conversion of shareholder debentures		-		21,881		(21,881)
Revaluation of Class B and Class D common shares		-		(3,563)		3,563
Other items (4)		(160)		2,985		(3,145)
Total Adjustments		**(3,757)**		**26,730**		**(30,487)**
Adjusted EBITDA	**$**	**38,699**	**$**	**41,272**	**$**	**(2,573)**
Adjusted EBITDA per MT**	**$**	**29.70**	**$**	**36.88**	**$**	**(7.18)**
Impact of:						
IFRS 16		5,394		N/A		5,394
Entwistle Incident		705		N/A		705
Adjusted EBITDA (excluding above impact)	**$**	**32,600**	**$**	**41,272**	**$**	**(8,672)**

***** 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 ourshare of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.
(3) Loss on disposal of PP&E includes our share of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.
(4) Other items include professional fees incurred in connection with the IPO and Secondary Offering in YTD 2018 of $1.2 million and $0.3 million, respectively, and $0.9 million in legal fees related to pursuing a damage claim and deduction for the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

Adjusted EBITDA was $38.7 million in YTD 2019, a decrease of $2.6 million from $41.3 million in YTD 2018. Increased revenue was offset by higher production costs, including higher conversion costs principally due to fibre mix constraints resulting in higher repair and maintenance expenses, higher fibre costs because of extended curtailments in the B.C. region, and costs associated with the Entwistle Incident, as discussed above, partially offset by the impact of IFRS 16 and business interruption amounts recoverable.

In YTD 2019, $8.5 million of business interruption insurance was recognised in net profit on the statement of profit (loss) as a reduction to production costs, partially offset by fixed overhead and incident response costs and other expenses of $7.8 million. We expect to recover additional costs through our business interruption insurance policies in future months. Excluding the costs associated with the Entwistle Incident, Adjusted EBITDA was $38.0 million or $29.16/MT YTD 2019.

As a result of applying IFRS 16, Adjusted EBITDA for YTD 2019 has increased by $5.4 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Excluding the impact of IFRS 16, Adjusted EBITDA YTD 2019 was $33.3 million.

Excluding the impact of the Entwistle Incident and applying IFRS 16, Adjusted EBITDA YTD 2019 was $32.6 million.

*Free Cash Flow**

(In thousands)	YTD 2019 39 weeks	YTD 2018 39 weeks	YTD 2019 vs. YTD 2018
Net loss	**$ (4,610)**	**$ (4,754)**	**$ 144**
Income tax recovery (1)	(1,410)	(3,058)	1,648
Finance costs (2)	20,394	5,164	15,230
Amortization of equipment and intangible assets (3)	28,082	17,190	10,892
EBITDA	**$ 42,456**	**$ 14,542**	**$ 27,914**
Stock-based compensation expense	884	5,099	(4,215)
Loss on disposal and impairment of PP&E (4)	9,980	173	9,807
Insurance recovery on Entwistle Incident	(8,000)	-	(8,000)
Gain on settlement of legal claim	(6,461)	-	(6,461)
Plant curtailment costs	-	155	(155)
Loss on conversion of shareholder debentures	-	21,881	(21,881)
Revaluation of Class B and Class D common shares	-	(3,563)	3,563
Other items (5)	(160)	2,985	(3,145)
Adjusted EBITDA (6)	**$ 38,699**	**$ 41,272**	**$ (2,573)**
Maintenance capital expenditures (7)	(7,278)	(5,449)	(1,829)
Interest and finance costs, net (8)	(12,394)	(5,845)	(6,549)
Mandatory amortization (9)	(2,000)	(6,000)	4,000
Free Cash Flow	**$ 17,027**	**$ 23,978**	**$ (6,951)**
Impact of:			
IFRS 16	3,651	N/A	3,651
Entwistle Incident	705	N/A	705
Free Cash Flow (excluding above impact)	**$ 12,671**	**$ 23,978**	**$ (11,307)**

* See “Non-IFRS Measures”.

Notes:

(1) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 28, 2018, we had unused non-capital loss carry forwards of $92.1 million. We do not anticipate a requirement to pay income tax before 2021.
(2) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
(3) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interests’ share of LPLP, SPLP and PWRHLLC.
(4) Loss on disposal of PP&E includes our share of HPLP and excludes the non-controlling interests’ share of LPLP, SPLP and PWRHLLC.
(5) Other items include professional fees incurred in connection with the IPO and Secondary Offering in YTD 2018 of $1.2 million and $0.3 million, respectively, and $0.9 million legal fees related to pursuing a damage claim, deduction for the non-controlling interests’ share of LPLP, SPLP and PWRHLLC and realized foreign exchange gains and losses on accounts payable and accrued liabilities.
(6) See definition of Adjusted EBITDA in the section entitled “Non-IFRS Measures” and reconciliation of Adjusted EBITDA to net income in “Selected Consolidated Financial Information”.
(7) “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. Upon commissioning of the Entwistle Facility and the High Level Facility, we anticipate these facilities to require $3.7 million in annual maintenance capital expenditures.
(8) Reflects post-IPO capital structure, and therefore excludes interest and financing costs on historical credit facilities that were repaid in connection with the IPO.
(9) Mandatory amortization was incurred in Q1 2019. Debt refinancing was completed in June 2019 and mandatory amortization has been deferred. Refer to the section entitled “Material Contracts – Credit Agreement” in the AIF for details of our credit facilities.

Free cash flow was $17.0 million in YTD 2019, a decrease of $6.9 million from $23.9 million in YTD 2018. The decrease is primarily due to a decrease in Adjusted EBITDA of $2.6 million, an increase of $1.8 million in maintenance capital expenditures, and an increase of $6.5 million in interest and finance costs, partially offset by the reduction of mandatory amortization of $4.0 million.

As a result of applying IFRS 16, Free Cash Flow for YTD 2019 has increased by $5.4 million related to lease payment expenses that were previously classified as operating leases under IAS 17, partially offset by a decrease of $1.7 million related to interest costs (increase in net interest and finance costs includes interest payment expense on capital leases under IFRS 16 of $1.7 million). Excluding the impact of the Entwistle Incident and of applying IFRS 16, Free Cash Flow in YTD 2019 was $12.7 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)

	2019			2018				2017
	Q3*	Q2*	Q1*	Q4	Q3	Q2	Q1	Q4
(In thousands except per share amounts)	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks
MT of industrial wood pellets sold	**423**	**478**	**402**	**473**	**421**	**385**	**328**	**334**
Revenue	**$92,552**	**$104,164**	**$89,627**	**$103,728**	**$87,606**	**$85,084**	**$71,022**	**$72,958**
Costs and expenses								
Production (2)	59,355	69,921	66,535	73,472	57,222	53,893	48,520	47,377
Distribution	14,457	13,005	12,766	13,371	12,360	13,138	8,030	9,925
Selling, general and administration	4,808	5,147	3,793	3,933	5,374	4,265	9,217	4,347
Amortization	9,943	9,801	9,583	7,220	6,719	5,381	5,358	5,280
	88,563	**97,874**	**92,677**	**97,996**	**81,675**	**76,677**	**71,125**	**66,929**
Profit (loss) before finance costs and other (income) expenses	3,989	6,290	(3,050)	5,732	5,931	8,407	(103)	6,029
Finance income (cost)	(4,813)	(7,753)	(6,409)	1,741	(4,360)	(41)	(382)	(6,120)
Other income (expense) (3)(4)	(71)	4,991	806	1,626	399	320	(17,983)	358
	(4,884)	(2,762)	(5,603)	3,367	(3,961)	279	(18,365)	(5,762)
Net profit (loss) before income taxes	(895)	3,528	(8,653)	9,099	1,970	8,686	(18,468)	267
Income tax recovery (expense)								
Deferred income taxes	169	(1,143)	2,384	(1,643)	(454)	(2,182)	5,694	(163)
Net profit (loss)	**$(726)**	**$ 2,385**	**$(6,269)**	**$ 7,456**	**$ 1,516**	**$ 6,504**	**$(12,774)**	**$ 104**
Net profit (loss) attributable to:								
Owners of the Company	(935)	1,980	(5,992)	7,081	1,184	6,218	(12,633)	124
Non-controlling interests	209	405	(277)	375	332	286	(141)	(20)
Net profit (loss)	**$(726)**	**$ 2,385**	**$(6,269)**	**$ 7,456**	**$ 1,516**	**$ 6,504**	**$(12,774)**	**$ 104**
Net profit (loss) attributable to owners								
Net profit (loss) attributable to owners	(935)	1,980	(5,992)	7,081	1,184	6,218	(12,633)	124
Cumulative preferred dividends	-	-	-	-	-	-	(104)	(409)
	$ (935)	$ 1,980	$ (5,992)	$ 7,081	$ 1,184	$ 6,218	$ (12,737)	$ (285)
Net profit (loss) per share attributable to owners								
Basic and diluted	**$ (0.03)**	**$ 0.06**	**$ (0.18)**	**$ 0.22**	**$ 0.04**	**$ 0.19**	**$ (0.58)**	**$ (0.04)**

** Q1 – Q3 2019 results include the adoption of IFRS 16 *Leases*, from December 30, 2018, on a prospective basis. Comparative periods have not been restated.

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 Q3 2019, $1.4 million of costs related to fixed overhead and incident response costs were reflected in production costs, $2.7 million and $2.1 million were reflected in Q2 and Q1 2019 respectively. Business interruption insurance were also reflected in production costs, $4.0 million in Q3 2019 and $4.5 million in Q2 2019.

(3) Upon closing of the IPO in Q1 2018, a gain of $3.6 million (before-tax) was recognised on conversion of Class B and Class D common shares. In Q1 $9.4 million of asset impairment costs and $3.0 million of insurance recoveries were recognised in relation to the Entwistle Incident. An additional $5.0 million of insurance recoveries was recognized in Q2 2019.

(4) In Q1 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 "Financial 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 our investments has come from cash flow from operating activities and/or our credit facilities. We believe our delayed draw facility under the Amended Facility, together with the proceeds from the IPO, will be sufficient to finance the Entwistle Facility, Smithers Facility, Aliceville Facility, High Level Facility and our anticipated capital expenditures associated therewith. At this time, we do not reasonably expect any presently known trend or uncertainty to affect our ability to access our potential sources of liquidity.

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 stockpiles.

Senior Credit Facilities

On June 14, 2019 the Company amended and expanded its credit facility to $530.0 million, comprised of a $65.0 million revolving line, a $280.0 million term loan, and a $185.0 million delayed draw term loan. The Amended Facility also extended the maturity date from December 13, 2022 to June 14, 2024.

Advances under the Amended Facility are available as Canadian dollar Prime-Based Loans, Banker's Acceptances ("BA") from the BA Lenders in Canadian dollars, BA Equivalent Loans from the Non-BA Lenders in Canadian dollars, US dollar Base Rate Loans, and LIBOR Loans in US dollars. Interest accrues daily at the applicable Bank Prime, BA, US Base or LIBOR rate plus a margin. The margin varies based on the ratio of Senior Debt to Adjusted EBITDA with a minimum margin of 1.50% and 2.50% for Prime/US Base and BA/LIBOR loans respectively, and maximum margin of 3.00% and 4.00%, respectively. At September 27, 2019, the $280.0 million term loan was in a Canadian dollar BA loan at 5.45% and the $12.0 million revolver loan was in a Canadian dollar Prime-Based loan with interest rate at 6.45%. (At September 28, 2018, the $194.0 million term loan was in a Canadian dollar BA loan at 5.30% and the $4.0 million revolver was in a Canadian dollar Prime-Based loan at 6.20%.)

During the 39-week period ended September 27, 2019 we refinanced our outstanding term loan and delayed draw term loan and obtained a $280.0 million drawdown on our term loan under the Amended facility. At September 27, 2019, we had issued letters of credit totaling $2.2 million (September 28, 2018 - $1.4 million).

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 construction and commissioning phase including Entwistle, High Level and Smithers Facilities, among other adjustments. The primary debt covenants are the Senior Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The U.S. federal NMTC Debt is not included in the calculation of Senior Debt (as defined in the credit agreement) as it is indemnified by Westervelt and we carry a NMTC Receivable from Westervelt of an equal amount.

Our credit agreement provides for calculation of the debt covenants prior to the application of IFRS 16. As at September 27, 2019 and December 28, 2018, the Company was in compliance with all debt covenants.

The Senior Credit Facilities 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 Q3 2019 compared to Q3 2018

(In thousands)		Q3 2019 13 weeks		Q3 2018 13 weeks		Q3 2019 vs. Q3 2018
Cash flow from operations before net change in non-cash working capital	$	15,799	$	14,211	$	1,588
Net change in non-cash operating working capital		(7,050)		(11,923)		4,873
Financing activities		812		(5,268)		6,080
Investing activities		(11,043)		(12,093)		1,050
Other		(10)		4		(14)
Change in cash		**(1,492)**		**(15,069)**		**13,577**
Cash and cash equivalents, beginning of period		9,827		22,345		(12,518)
Cash and cash equivalents, end of period	**$**	**8,335**	**$**	**7,276**	**$**	**1,059**

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

Cash flow from operations before net change in non-cash working capital increased by $1.6 million to $15.8 million for Q3 2019 from $14.2 million for Q3 2018, mainly due to the receipt of a $4.5 million payment for business interruption insurance proceeds from the Entwistle Incident recognised in Q2 2019, partially offset by the higher operating costs which more than offset the higher revenue in current quarter.

Net change in non-cash working capital

The $7.1 million cash used in non-cash working capital was primarily comprised of a $13.4 million increase in inventory and a decrease of $1.7 million in accounts payable and accrued liabilities, partially offset by a $7.7 million decrease in accounts receivable and an increase of $0.4 million in other current liabilities. The $11.9 million cash used in non-cash working capital in Q3 2018 was primarily comprised of a $5.3 million increase in accounts receivable, a $3.5 million increase in inventory, a $1.5 million increase in other current assets, a decrease of $0.8 million in accounts payable and accrued liabilities and a decrease of $0.8 million of other current liabilities.

Financing activities

Financing activities provided net $0.8 million of cash primarily from drawings on revolver loan of $12.0 million and $0.7 million from investment from non-controlling interest, partially offset by $5.0 million of dividends paid, $4.1 million of finance costs paid, $2.6 million of finance leases paid and a $0.2 million distribution to non-controlling interest. In Q3 2018, the $5.3 million used in financing activities was comprised of $4.9 million in dividends paid, $4.0 million in term debt paid, $2.8 million in finance costs paid and a $0.5 million distribution to non-controlling interest, partially offset by $3.5 million in revolver loan drawn and $3.4 million net investment from non-controlling interest.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment, net of the receipt of $5.0 million for property insurance proceeds received in the current quarter. $16.1 million of cash used for property, plant and equipment during Q3 2019 includes approximately $6.0 million associated with the rebuilding of the dryer and capital improvements at our Entwistle Facility, and $10.1 million for other growth projects. The costs related to asset repairs and capital improvements at the Entwistle Facility have been capitalised to construction-in-progress for Q3 2019. The increase over Q3 2018 represents the increase in cash used for the rebuilding of the Entwistle facility, the construction of High Level Facility and other growth projects, compared with the cash used for the construction of the Smithers Facility and other projects in Q3 2018.

Analysis of cash flows for YTD 2019 compared to YTD 2018

(In thousands)		**YTD 2019 39 weeks**		**YTD 2018 39 weeks**		**YTD 2019 vs. YTD 2018**
Cash flow from operations before net change in non-cash working capital	$	53,421	$	37,692	$	15,729
Net change in non-cash operating working capital		(29,342)		1,519		(30,861)
Financing activities		(5,654)		(1,180)		(4,474)
Investing activities		(28,193)		(49,989)		21,796
Other		75		326		(251)
Change in cash		**(9,693)**		**(11,632)**		**1,939**
Cash and cash equivalents, beginning of period		18,028		18,908		(880)
Cash and cash equivalents, end of period	**$**	**8,335**	$	**7,276**	$	**1,059**

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 $15.7 million to $53.4 million for YTD 2019, versus $37.7 million for YTD 2018, mainly due to the receipt of a $4.5 million payment for business interruption insurance proceeds from the Entwistle Incident recognised in net profit on the statement of profit (loss) in YTD 2019 and $6.5 million in cash received from a legal settlement.

Net change in non-cash working capital

The $29.3 million cash used in non-cash working capital was primarily due to a $18.4 million increase in inventory, a $6.8 million decrease in accounts payable and accrued liabilities and a $4.5 million increase in other current assets, offset by an increase in other current liabilities of $0.5 million. The cash generated in non-cash working capital of $1.5 million in YTD 2018 reflected a decrease in accounts receivable of $10.5 million, an increase in accounts payable and accrued liabilities of $4.8 million. The impact was partially offset by the decrease in other current liabilities of $12.1 million, the increase in inventory of $1.5 million and an increase in other current assets of $0.2 million.

Financing activities

In YTD 2019, we expanded our credit facility by $150 million to $530 million and financing activities in YTD 2019 used $5.6 million of cash primarily from a $262.2 million repayment of delayed draw loan, term debt and revolver loans, $14.9 million of dividends paid, $12.7 million of finance costs paid, $7.3 million of finance leases paid, and $0.7 million in distributions to non-controlling interest. The impact was partially offset by drawings on term debt of $277.9 million, drawing of revolver loan of $12.0 million and $2.0 million in investment from non-controlling interest.

In YTD 2018, financing activities used $1.2 million of cash, primarily from the repayment of shareholders' debentures of $28.6 million, net repayment of credit facilities of $24.5 million, finance costs paid of $8.6 million, and dividend paid of $7.9 million, partially offset by the net proceeds of the IPO of $64.6 million and investment from non-controlling interests of $4.4 million.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment, net of the receipt of $8.0 million for property insurance proceeds. In YTD 2019, net cash used for property, plant and equipment was $36.3 million, a $13.9 million decrease from YTD 2018. YTD 2019 includes approximately $13.4 million associated with the rebuilding of the dryer at our Entwistle Facility, and $22.9 million for the construction related to other growth projects. YTD 2018 cash used for investing was primarily related to the construction of the Entwistle Facility.

OUTLOOK

Improved forecast data from some B.C. sawmills has provided us with a clearer picture of their expected operating plans for the remainder of 2019 which has enabled us to better understand our medium term fibre requirements. Our partner sawmills in B.C. are working cooperatively with us to ensure our facilities have additional visibility and replacement fibre sources where possible. With this information, our fibre team is working to source cleaner, lower cost consistent sources of replacement harvest residuals and lower cost, consistent third party fibre chipping and grinding sources to fill identified gaps. Our fibre team expects that we will have more fibre delivered to us than our operating plans require for continued production at our B.C. facilities in Q4 2019 and Q1 2020.

We plan to increase fibre deliveries to the B.C. facilities by a forecasted 20% in Q4 2019 compared to the same period in 2018 to build this inventory. We do not expect the investment in additional working capital to be significant to the balance sheet. With increased visibility and stability of the new supply sources and flows, we will work to put in place more cost effective trucking. In addition, this is expected to provide our B.C. facilities with a more predictable fibre mix in Q4 2019 and into Fiscal 2020. We expect our B.C. facilities will continue to process a wider mix of harvest residuals in coming quarters, resulting in an ongoing impact to production levels, fibre and cash conversion costs.

As some of the B.C. sawmills that have not yet announced curtailments are facing the same cyclical profit pressures as others, there is a risk that there will be additional announcements in the coming months until lumber prices further increase. Stumpage costs for B.C. sawmill logs are not expected to decrease under the current formula until mid-2020. While further announcements and closures are likely, we are better prepared to manage impacts than we were during the period of heavy change in Q3. Our fibre team will continue to negotiate and better manage costs in the coming months. We are of the view that First Nations will play an ever increasing role in decisions on land in B.C. into the future. We view strong relationships with First Nations people as consistent with our values, and an opportunity for us to stabilize access to long-term fibre.

With the restart of the Entwistle dryer and production from Aliceville, we will have more of our production outside of the impacted B.C. fibre basket. As we complete the Cariboo capital project in Williams Lake and Meadowbank in 2020, we will be better able to produce with the anticipated fibre mix.

We expect production and revenue growth to continue to be impacted through Q4 2019 and into Fiscal 2020, as will the Adjusted Gross Margin as our B.C. facilities continue to process a wider mix of harvest residuals. We remain focused on improving our fibre, fibre processing, haulage, and cash conversion costs.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There were no material changes in Q3 2019 in the contractual obligations, off-balance sheet arrangements or commitments specified in our Q2 2019 interim condensed consolidated financial statements and related 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 September 27, 2019 was $8.3 million (December 28, 2018 - $18.0 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 trade accounts receivable balance at September 27, 2019 was $26.4 million (December 28, 2018 - $34.4 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 September 27, 2019 we had available liquidity of $58.2 million (December 28, 2018 - $49.1 million) from our debt facilities (excluding delayed draw) and cash balances and forecast sufficient liquidity throughout Fiscal 2020. 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 September 27, 2019, our ratio of net debt to last twelve month Adjusted EBITDA was 5.46 times. This ratio was impacted because of the investment in the Aliceville Facility in Q4 2018, in significant new capacity from the Entwistle and Smithers facilities, and the expansion projects at Williams Lake, Meadowbank, and High Level have not yet generated their run-rate EBITDA. As these facilities reach their run-rate capacity, we expect these ratios to decline.

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 20 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 September 27, 2019, we entered into two $50.0 million interest rate swaps totaling $100.0 million as hedges of the variability in cash flows attributable to movement in interest rates. The swaps expire on March 31, 2024 and require interest payments.

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 from Fiscal 2018.

We are subject to certain financial covenants in our debt obligations. Refer to Note 8 to the Interim Condensed 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 recognised 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.

Changes in Internal Control Over Financial Reporting

There were no changes to our disclosure controls and procedures and internal control over financial reporting ("ICFR") during Q3 2019 that have materially affected, or are reasonably likely to materially affect, ICFR or disclosure controls.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

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 recognised 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 our Fiscal 2018 consolidated financial statements and MD&A.

Recently Adopted Significant Accounting Standards

IFRS 16

IFRS 16 was issued in January 2016 by the IASB as a replacement for IAS 17 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 recognises 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-of-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 recognised 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 December 29, 2018 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.

On transition to IFRS 16, we recognised additional right-of-use assets and additional lease liabilities of equal amounts. Accordingly, there are no differences to be recognised in retained earnings. The impact on transition is summarised below.

(in thousands)		Q3 2019 Actual		Q3 2018 Actual
IFRS 16 - Adjusted EBITDA impact				
Adjusted EBITDA	**$**	**14,256**	**$**	**14,454**
Deduct: Lease Payment Expense*		(1,798)		-
Adjusted EBITDA (excl. IFRS 16)		**12,458**		**14,454**
IFRS 16 - Net profit (loss) impact				
Net profit (loss)		**(726)**		**1,516**
Deduct: Lease Payment Expense*		(1,798)		-
Add: ROU Asset Depreciation*		2,062		-
Add: Interest on Lease Liabilities*		593		-
Net profit (loss) impact		857		-
Net profit (loss) impact (tax-effected at 27%)		626		-
Net profit (loss) (excl. IFRS 16)	**$**	**(100)**	**$**	**1,516**

* Adjusted for non-controlling interests.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, we recognised $36.8 million of right-of-use assets and $36.8 million of lease liabilities as at December 29, 2018.

Also, in relation to those leases under IFRS 16, we have recognised depreciation and interest costs, instead of operating lease expense. During Q3 2019, we recognised $2.0 million of depreciation charges and $0.6 million of interest costs from these leases.

As a result of applying IFRS 16, Adjusted Gross Margin and Adjusted EBITDA for Q3 2019 have increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Also in relation to applying IFRS 16, Free Cash Flow for Q3 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17, partially offset by a decrease of $0.6 million related to interest costs (increase in net interest and finance costs includes interest payment expense on capital leases under IFRS 16 of $0.6 million).

NON-IFRS MEASURES

The measures below are used by management as key performance indicators for our business. Certain measures used by management are not recognised under IFRS.

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.

RELATED PARTY TRANSACTIONS

NPLP transactions

NPLP is owned 50% by us and 50% by non-related third parties. We will purchase industrial wood products from NPLP once the Facility is operational and earn revenue from sales of fibre and distribution fees. We will manage and administer the business affairs of NPLP 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.

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.

PWRH LLC transactions

PWRH LLC 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 WPI LLC. We manage and administer the business affairs of PWRH LLC.

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

Significant shareholder

Based on information provided by ONCAP, as at September 27, 2019 ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31.3% of the issued and outstanding common shares of the Company. ONCAP is ultimately controlled by Onex Corporation.

See Note 19 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 November 12, 2019 we had 33,308,516 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of November 12, 2019 an aggregate of 2,155,733 options to acquire Common Shares and 15,334 restricted share units representing the right to Common Shares are outstanding.

Additional Information

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