PINNACLE RENEWABLE HOLDINGS INC.

Management's Discussion & Analysis

First Quarter of Fiscal 2018

13-week Period Ended March 30, 2018

May 2, 2018

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated May 2, 2018 provides information concerning the financial condition and results of operations of Pinnacle Renewable Holdings Inc. (collectively with its consolidated subsidiaries, the "Company", "Pinnacle", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial and operating results for the 13-week period ended March 30, 2018 ("Q1 2018"). This MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and accompanying notes for Q1 2018 (the "Consolidated Financial Statements"), as well as our audited consolidated financial statements and accompanying notes for Fiscal 2017 (as defined herein) 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 International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. Our interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 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, references to "Fiscal 2017" are to our 52-week period ended December 29, 2017, references to "Fiscal 2018" are to our 52-week period ended December 28, 2018, references to "Fiscal 2019" are to our 52-week period ended December 27, 2019, and references to "Fiscal 2020" are to our 53-week period ended December 25, 2020. All references in this MD&A to "Q1 2018" are to our 13-week period ended March 30, 2018, references to "Q2 2018" are to our 13-week period ended June 29, 2018, and references to "Q1 2017" are to our 13-week period ended March 31, 2017. Our fiscal year is the 52 or 53-week period ending the last Friday of the calendar year. The last 53-week fiscal year occurred in Fiscal 2016.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. As the context requires, this may include certain targets as disclosed in the Company's Annual Information Form ("AIF") dated March 21, 2018, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. See also the "Outlook" section of this MD&A.

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

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Financial Risk Factors" section of this MD&A and in the "Risk Factors" section of our 2017 AIF dated March 21, 2018, which can be accessed under the Company's profile on SEDAR at www.sedar.com. The Company cautions that the list of risk factors and uncertainties described herein and in the AIF are not intended to represent a complete list of the factors that could affect us. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned to not place undue reliance on such information.

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

Non-IFRS Financial Measures

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

COMPANY OVERVIEW, STRATEGY AND OBJECTIVES

Company Overview

Pinnacle is a rapidly growing industrial wood pellet manufacturer and distributor and is the third largest wood pellet producer in the world. We produce renewable fuel for electricity generation in the form of industrial wood pellets, which are used by global utilities and large-scale power generators to produce renewable and reliable baseload power. We are a trusted supplier to our customers, who require reliable, high quality fuel supply to maximize utilization of their facilities. The industrial wood pellet industry is experiencing rapid growth driven by increased European and Asian demand for power sources that reduce carbon emissions in-line with regulatory objectives. Hawkins Wright, a leading provider of market intelligence and analytical services to the international pulp, paper and biomass industries, forecasts that demand for industrial wood pellets will have a compound annual growth rate of 17.7% from 2016 through 2021.

As one of only three large global suppliers, we currently operate seven production facilities with a combined run-rate production capacity in excess of 1.8 million metric tons per annum ("MTPA"), and are well positioned to support growing demand through construction of new production capacity. In March 2018, we commenced operations at the Entwistle Facility (as defined herein) (400,000 MTPA) with production from dry fibre, and have recently commenced construction of the Smithers Facility (as defined herein) (125,000 MTPA) in partnership with West Fraser Timber Co. Ltd. ("West Fraser"). Our wholly-owned Entwistle Facility is expected to be completing dryer commissioning and ramping up production during the second quarter of Fiscal 2018 and the Smithers Facility is expected to commence production in the fourth quarter of Fiscal 2018. We have entered into long-term take-or-pay contracts with our customers, whereby the buyer has a firm obligation to purchase a fixed quantity of product at specific prices that represent 102% of our production capacity through 2021 and 83% of our production capacity through 2026, on an aggregated basis, including new production capacity from the Entwistle and Smithers Facilities. As at May 2, 2018 our total Contracted Backlog (as defined herein) is $3.5 billion.

Strategy and Objectives

Through increasing capacity at our existing production facilities, the construction of our new Smithers Facility, as well as the addition of other greenfield and brownfield projects, we believe we have an opportunity to grow our industrial wood pellet production proportionately with increasing global demand.

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

RECENT DEVELOPMENTS

Initial Public Offering

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

The underwriters were granted an over-allotment option (the "Over-Allotment Option") to purchase up to an additional 2,000,250 Common Shares from certain Selling Shareholders at a price of $11.25 per Common Share for additional gross proceeds of approximately $22.5 million. The Over-Allotment Option was exercisable for a period of 30 days from the closing date of the Offering. On February 27, 2018, the underwriters exercised the Over-Allotment Option in full.

Market Update

The European Parliament, the directly elected parliamentary institution of the European Union ("EU"), voted to accept the Renewable Energy Directive during 2017 which calls for a renewable energy target of 35% for EU member countries. The European Commission, European Parliament and European Council are in the process of trilogue negotiations to reach a provisional agreement between EU institutions. We expect this will provide further impetus for growth in biomass-based fuel sources within the European power generating portfolio.

Efforts to convert existing power generating units in the Netherlands to utilize wood pellets by Uniper SE and RWE AG, two of Europe's largest power generators and energy traders, remain on schedule. Both units are expected to commission during 2018.

Drax, one of the United Kingdom's largest power utilities, received subsidy support for its fourth generating unit at the Drax Power Station in the U.K. The effect of the subsidy support is expected to impact this generating unit in 2018/2019, allowing Drax to utilize wood pellets more continuously and at a slightly elevated overall level.

The Engie plant at Rodenhuize, Belgium has re-started in the first quarter of 2018, off-setting the effect of the delayed start of the Lynemouth power station in the U.K. The Lynemouth power station is now successfully commissioned.

Demand for industrial wood pellets in Japan is accelerating, supported by the government's Feed-in Tariff system. There are more than 10 new biomass projects currently in late-stage development in Japan. According to Hawkins Wright, the Japanese market represented 3% of global demand for industrial wood pellets in 2016 and forecasts this market to increase to approximately 10% of global demand in 2021 and 17% in 2026.

New and Extended Off-take Agreements

The following is a summary of long-term sales contracts that we have entered into with customers in Fiscal 2018 year-to-date (as at May 2, 2018).

During Q1 2018 we entered into a long term take-or-pay contract with a new customer in Japan, UBE Industries Ltd. (“Ube”), a diversified Japanese conglomerate. Under the terms of the contract, we will supply 70,000 MTPA of industrial wood pellets to Ube commencing in late Fiscal 2019. The industrial wood pellets will be used in a new demonstration facility that Ube is constructing to manufacture torrefied pellets. The demonstration facility will enable Ube to conduct demonstration tests with the goal of marketing its torrefied pellets to conventional coal-fired power plants.

In Q2 2018 we entered into a long-term take-or-pay contract with another new customer, Toyota Tsusho Corporation (“Toyota Tsusho”), a trading and investing company which is also a group member of Toyota. Under the terms of the contract, we will supply 30,000 MTPA of industrial wood pellets to Toyota Tsusho beginning in late 2021. The industrial wood pellets will be used in a biomass power generation plant. Also in Q2 2018, we entered into a long-term, take-or-pay off-take contract with Sumitomo Corporation (“Sumitomo”) to supply 75,000 MTPA of industrial wood pellets beginning in late 2022. The industrial wood pellets will be used in a thermal power generation plant in Japan converted to run on biomass.

During Q1 and Q2 of 2018 to-date we have signed long-term contracts totaling $575 million with customers in Japan. These contracts continue to advance our strategy for sales growth into Japan and build on the momentum that we had in Fiscal 2017 wherein we signed four new long-term contracts totalling $421 million, a third of which were with customers in Japan.

With the inclusion of these new contracts, which have longer terms than our existing contracts and extend past 2030, we have 102% of our production capacity contracted through 2021, and 83% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Entwistle Facility and the Smithers Facility.

We have improved diversification of customer revenue. During Q1 2018 three of our customers represented 69% of total revenue, whereas during Q1 2017 two of these customers represented 87% of our total revenue.

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

New Production Facilities

Entwistle

The Entwistle production facility (the “Entwistle Facility”) is owned 100% by us. The Entwistle Facility is located in Entwistle, Alberta, 95 kilometres west of Edmonton, in close proximity to abundant wood fibre sources, including several major sawmills. The Entwistle Facility commenced initial operations in March 2018 with production from dry fibre. We expect to complete the construction of the Entwistle Facility in Q2 2018, and continue commissioning the facility to utilize a broader range of fibre sources, including shavings, sawdust, bush grind, chips and hog fuel. We plan to gradually ramp-up the Entwistle Facility to ensure all machine centres are performing optimally and expect to achieve full run-rate production of 400,000 MTPA in the second quarter of Fiscal 2019.

Smithers

The Smithers production facility (the “Smithers Facility”) is owned 70% by us and 30% by West Fraser through a partnership, Smithers Pellet Limited Partnership (“SPLP”), and is located in Smithers, British Columbia (“B.C.”). On March 12, 2018, we commenced the construction of the Smithers Facility. The capital cost of the project is anticipated to be approximately $33 million (70% of which will be attributable to us), which includes the 2017 acquisition of the land and operating infrastructure for $8.4 million. Approximately 79% of the capital costs are fixed as at May 2, 2018.

We expect initial pellet production at the Smithers Facility to commence in the fourth quarter of Fiscal 2018. Following commissioning, our management team expects to gradually ramp up the Smithers Facility to ensure all machine centres are performing optimally. Full run-rate production of 125,000 MTPA is anticipated in the third quarter of Fiscal 2019.

Production Capacity to Meet New and Extended Off-take Agreements

With the new long-term supply agreements contracted in Q1 and Q2 2018, we will require additional industrial wood pellet production capacity to meet our growing customer backlog. Through our continuous improvement programs, we expect to continue to increase production capacity at our existing facilities. Additionally, under our Development Blueprint (as defined herein), once we have new, committed large-volume sales contracts, we initiate the expansion of our production capacity by advancing development of greenfield or brownfield production facilities in our funnel of new growth projects. We may also fulfill new contracted volumes through purchasing existing industrial wood pellet production facilities.

FINANCIAL HIGHLIGHTS

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

Select financial highlights include the following:

(In millions)		**Q1 2018 13 weeks**		**Q1 2017 13 weeks**
Revenue	$	71.0	$	67.8
Production costs	$	48.5	$	44.5
Distribution costs	$	8.0	$	9.1
Selling, general and administration expenses	$	9.2	$	3.2
Net loss and comprehensive loss	$	(12.8)	$	(0.3)
Adjusted Gross Margin (1)	$	14.9	$	14.6
Adjusted Gross Margin Percentage (1)		21.0%		21.5%
Adjusted EBITDA (1)	$	12.0	$	12.2
Free Cash Flow (1)	$	9.0	$	9.3

(In billions)		**March 30, 2018**		**December 29, 2017**
Contracted Backlog	$	3.0	$	3.0

(1) See "Non-IFRS Measures".

SUMMARY OF FACTORS AFFECTING PERFORMANCE

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

Growing Global End Market

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

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

Revenues and Costs for Deliveries to Customers

We enter into long-term take-or-pay off-take contracts with reliable counterparties, matching shipping requirements with new production availability. We have 102% of our production capacity contracted through 2021, and 83% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Entwistle Facility and the Smithers Facility. Strong demand for industrial wood pellets enables us to obtain price escalation in contracts that should mitigate any increased cost of production and distribution. Revenues and costs for deliveries to customers can vary significantly between periods depending upon the type of contract and timing of shipments. Depending on the specific off-take contract, shipping terms are either Free on Board (“FOB”), whereby the buyer assumes responsibility for the goods as soon as they are shipped, or Cost, Insurance, Freight (“CIF”), whereby the seller assumes responsibility for the goods until the goods are received by the buyer (typically at the receiving port). Under an FOB contract, the customer is responsible for paying all shipping costs directly, so our revenue is not impacted by shipping costs. Under a CIF contract, we procure and pay for shipping costs which include insurance and all other charges up to the port of destination for the customer. These costs are included in the price charged to the customer and as such, are included in revenue and cost of distribution. As well, revenue is impacted by the timing of shipments which can result in material fluctuations in our revenue between periods.

New Development Projects

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

Following our Development Blueprint, we construct and commission new production facilities to support new sales contracts. Our most recently completed and fully commissioned greenfield project, the Lavington production facility (the “Lavington Facility”), was constructed on time, under budget and is currently producing volumes in excess of original expectations. We are leveraging our experience from the construction of the Lavington Facility and are currently completing construction of the dryer at the Entwistle Facility and constructing the Smithers Facility in accordance with our Development Blueprint.

Production

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

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

Wood Fibre and Forest Residuals

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

Our ability to produce industrial wood pellets is dependent on the availability and cost of wood fibre available within an economic radius of our plants.

Trucking, Rail and Port Logistics

Our production facilities are strategically located in highly concentrated sawmill regions, adjacent to rail lines and on back-haul routes in key wood fibre regions, enabling efficient, cost-effective transportation of industrial wood pellets and providing access to wood fibre supply. If there are rail line or trucking disruptions, mitigating strategies can be deployed. Industrial wood pellets from our production facilities are efficiently transported to the Westview Terminal (as defined herein) at the Port of Prince Rupert in Northern B.C. or the Fibreco Export Inc. terminal at the Port of Vancouver. The availability of alternative ports for shipping helps mitigate our risk. The weather sensitivity of our cargo and occasional port congestion of ships and rail cars can delay our shipment and increase demurrage costs. Conservative shipping scheduling provides the opportunity for pulling shipments forward and reducing costs when the weather is favourable.

Sustainability

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

KEY PERFORMANCE INDICATORS

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

IFRS Measures

Revenue

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

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

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

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

Contracted Backlog

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

Costs of Production and Distribution

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

We have strategically located our production facilities in B.C. and Alberta regions with high quality wood fibre sources. We supply the majority of wood fibre in our production facilities primarily through long-term contracts. Delivered wood fibre costs include the cost of both procuring the fibre and trucking the fibre from the source to our production facilities.

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

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

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

Gross Margin

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

Selling, General and Administration

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

Equity Earnings in HPLP

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

Non-controlling interests

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

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

Non-IFRS Measures

Adjusted Gross Margin Percentage

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

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

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

Adjusted EBITDA

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

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

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

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

Free Cash Flow

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

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

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

CONTRACTED BACKLOG

We enter into long-term, take-or-pay off-take contracts with large and well capitalized counterparties including power generators such as Drax, RWE and Mitsubishi, or their affiliates.

“Contracted Backlog” represents the revenue to be recognized under existing contracts assuming deliveries occur as specified in the contracts. As a result of customer preferences or logistics management, there can be movement in the timing of deliveries that may result in revenue being recognized in either a preceding or following interim fiscal period. Our expected future industrial wood pellet sales under our Contracted Backlog as of March 30, 2018, is as follows (in billions):

Fiscal 2018	$ 0.3
Fiscal 2019	0.4
Fiscal 2020 and thereafter	2.3
Total product sales under Contracted Backlog	**$ 3.0**

As of May 2, 2018, our Contracted Backlog is $3.5 billion.

RESULTS OF OPERATIONS

Analysis of Results for Q1 2018 to Q1 2017

The following section provides an overview of our financial performance in Q1 2018 compared to Q1 2017.

(In thousands)	Q1 2018 13 Weeks	Q1 2017 13 Weeks	Q1 2018 vs. Q1 2017
MT of industrial wood pellets sold	**328**	**320**	**8**
Revenue	**$ 71,022**	**$ 67,847**	**$ 3,175**
Costs and expenses			
Production	48,520	44,546	3,974
Distribution	8,030	9,060	(1,030)
Selling, general and administration	9,217	3,206	6,011
Amortization	5,358	5,604	(246)
	71,125	**62,416**	**8,709**
Profit (loss) before finance (income) costs and other (income) expenses	**$ (103)**	**$ 5,431**	**$ (5,534)**
Finance cost	382	5,827	(5,445)
Other (income) expense	17,983	(7)	17,990
	18,365	**5,820**	**12,545**
Net loss before income taxes	**$ (18,468)**	**$ (389)**	**$ (18,079)**
Income tax (expense) recovery			
Current	-	-	-
Deferred	5,694	104	5,590
Income Taxes	5,694	104	5,590
Net loss and comprehensive loss	**$ (12,774)**	**$ (285)**	**$ (12,489)**

Revenue

Revenue for Q1 2018 totaled $71.0 million, an increase of $3.2 million, or 4.7%, compared to $67.8 million for Q1 2017. This increase was primarily attributable to an increase in the average sales price per MT reflecting an improved contract mix on higher priced U.K. and European contracts in Q1 2018 compared to Q1 2017, higher sales volume, and a one-time sale through a third party supplier. The increase in revenue was partially offset by a lower proportion of CIF sales in Q1 2018 compared to Q1 2017 (CIF sales drive higher revenue per MT than FOB sales as they include the cost of ocean freight).

Production

Production costs were $48.5 million for Q1 2018, an increase of $4.0 million from $44.5 million for Q1 2017, primarily due to an increase in cash conversion costs and slightly higher sales volume. While we realized some volume from commencement of operation of the Entwistle Facility, rail disruptions during Q1 2018 resulted in offsetting lost production. Active management of our operations during rail disruptions helped to minimize the impact on our results.

Distribution

Distribution costs were $8.0 million for Q1 2018, a decrease of $1.0 million compared to $9.0 million for Q1 2017, reflecting a $1.5 million decrease in shipping costs resulting from a lower proportion of CIF sales as discussed above, partially offset by a $0.4 million increase in port costs primarily from higher demurrage costs and reduced shipments through our lower cost Westview Terminal due to rail disruptions.

Selling, general and administration

Selling, general and administration expenses increased $6.0 million from $3.2 million for Q1 2017 to $9.2 million for Q1 2018. SG&A expenses include certain professional fees incurred in connection with the Offering in Q1 2018 of $1.2 million and certain legal fees related to a damage claim we are pursuing against one of our equipment suppliers of $0.4 million. In Q1 2017, legal fees related to this claim were $0.4 million. In addition, in Q1 2017, $0.4 million of professional fees related to the Entwistle Facility previously incurred were capitalised upon board approval of the project. Excluding the above items, SG&A expenses increased $4.4 million from Q1 2017 to Q1 2018. Of this $4.4 million increase, $4.2 million relates to incremental stock-based compensation expense in Q1 2018. The remaining increase is primarily attributable to public company costs and inflationary increase in overall SG&A expenses.

Amortization

There was no significant change in amortization expense from Q1 2017 to Q1 2018. During Q1 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. Production at the Entwistle Facility has commenced in March 2018. Additions to property, plant and equipment other than construction in progress in Q1 2018 included those related to intertidal protection projects at our Westview Terminal.

Finance cost

Finance cost was $0.4 million in Q1 2018, a decrease of $5.4 million from $5.8 million in Q1 2017. This decrease was primarily due to a $2.7 million reduction in interest on shareholders' debentures, which was converted upon the closing of the Offering, and a $2.3 million fluctuation in the fair value of foreign exchange derivative contracts.

Other (income) expense

In Q1 2018, other expense was $18.0 million, 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 Offering. Other income in Q1 2017 was not significant.

Income taxes

Income tax recovery was $5.7 million in Q1 2018, an increase of $5.6 million from $0.1 million in Q1 2017. This increase was primarily attributable to deferred income tax recovery on the loss on conversion of shareholders' debentures upon closing of the Offering. Income tax recovery was not significant in Q1 2017.

Net loss and comprehensive loss

Net loss and comprehensive loss was $12.8 million in Q1 2018, an increase of $12.5 million from $0.3 million in Q1 2017, primarily due to a net increase in other expense of $18.0 million as discussed above, offset by a $5.4 million decrease in finance cost, both of which are non-recurring following the completion of the Offering.

*Adjusted Gross Margin Percentage**

(In thousands except per MT amounts)		Q1 2018 13 Weeks		Q1 2017 13 Weeks		Q1 2018 vs. Q1 2017
Profit (loss) before finance costs and other income (expenses)	**$**	**(103)**	**$**	**5,431**	**$**	**(5,534)**
Selling, general and administration		9,217		3,206		6,011
Amortization		5,358		5,604		(246)
Equity earnings in HPLP		296		317		(21)
Non-controlling interests		141		61		80
Adjusted Gross Margin	**$**	**14,909**	**$**	**14,619**	**$**	**290**
Adjusted Gross Margin per MT	**$**	**45.45**	**$**	**45.68**	**$**	**(0.23)**
Adjusted Gross Margin Percentage		**21.0%**		**21.5%**		**(0.5)%**

* See "Non-IFRS Measures".

Adjusted Gross Margin Percentage decreased to 21.0% for Q1 2018 ($45.45/MT), down from 21.5% in Q1 2017 ($45.68/MT), primarily due to higher production costs and a lower margin on a one-time sale through a third party, partially offset by higher average sales prices and lower distribution costs as discussed above.

Adjusted EBITDA*

(In thousands except per MT amounts)		Q1 2018 13 Weeks		Q1 2017 13 Weeks		Q1 2018 vs. Q1 2017
MT of industrial wood pellets sold		**328**		**320**		**8**
Net loss and comprehensive loss for the year	**$**	**(12,774)**	**$**	**(285)**	**$**	**(12,489)**
Income tax expense		(5,694)		(104)		(5,590)
Finance costs excluding shareholder debentures (1)		484		3,136		(2,652)
Finance costs on shareholder debentures		-		2,733		(2,733)
Amortization of equipment and intangible assets (2)		5,243		5,502		(259)
EBITDA	**$**	**(12,741)**	**$**	**10,982**	**$**	**(23,723)**
EBITDA Adjustments						
Stock-based compensation expense		4,203		22		4,181
Loss on disposal of PP&E (3)		141		59		82
Plant curtailment costs		47		496		(449)
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)		1,989		597		1,392
Total Adjustments		**24,698**		**1,174**		**23,524**
Adjusted EBITDA	**$**	**11,957**	**$**	**12,156**	**$**	**(199)**
Adjusted EBITDA per MT	**$**	**36.45**	**$**	**37.99**	**$**	**(1.54)**

* See "Non-IFRS Measures".

Notes:

(1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
(2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP.
(3) Loss on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP and SPLP.
(4) Other items include professional fees incurred in connection with the Offering in Q1 2018 of $1.2 million, legal fees related to pursuing a damage claim, deduction for the non-controlling interest's share of LPLP and SPLP, and realized foreign exchange gains and losses on accounts payable and accrued liabilities.

Adjusted EBITDA decreased $0.2 million to $12.0 million in Q1 2018, down from $12.2 million in Q1 2017. This decrease was due to higher production and SG&A costs, partially offset by higher revenue as discussed above.

Free Cash Flow*

(In thousands)		Q1 2018 13 Weeks		Q1 2017 13 Weeks		Q1 2018 vs. Q1 2017
Net loss and comprehensive loss	**$**	**(12,774)**	**$**	**(285)**	**$**	**(12,489)**
Income tax expense		(5,694)		(104)		(5,590)
Finance costs excluding shareholder debentures (1)		484		3,136		(2,652)
Finance costs (income) on shareholder debentures		-		2,733		(2,733)
Amortization of equipment and intangible assets (2)		5,243		5,502		(259)
EBITDA	**$**	**(12,741)**	**$**	**10,982**	**$**	**(23,723)**
Stock-based compensation expense		4,203		22		4,181
HPLP legal settlement		-		-		-
Loss on disposal of PP&E (3)		141		59		82
Plant curtailment costs		47		496		(449)
Loss on conversion of shareholder debentures		21,881		-		21,881
Revaluation of Class B and Class D shares		(3,563)		-		(3,563)
Other items (4)		1,989		597		1,392
Adjusted EBITDA (5)	**$**	**11,957**	**$**	**12,156**	**$**	**(199)**
Maintenance capital expenditures (6)		(1,038)		(1,000)		(38)
Interest and finance costs, net (7)		(1,916)		(1,860)		(56)
Cash taxes paid (8)		-		-		-
Mandatory amortization (9)		-		-		-
Free Cash Flow	**$**	**9,003**	**$**	**9,296**	**$**	**(293)**

* See "Non-IFRS Measures".

Notes:

(1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.

(2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest's share of LPLP.

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

(4) Other items include professional fees incurred in connection with the Offering in Q1 2018 of $1.2 million, legal fees related to pursuing a damage claim, deduction for the non-controlling interest's share of LPLP and SPLP, and realized foreign exchange gains and losses on accounts payable and accrued liabilities.

(5) See definition of Adjusted EBITDA in the section entitled "Key Performance Indicators" and reconciliation of Adjusted EBITDA to net income in "Selected Consolidated Financial Information".

(6) "Maintenance capital expenditures" refers to cash expenditures to maintain long-term operating capacity or net income. Annual maintenance capital expenditure allows for the maintenance of long-term operating capacity or net income. Upon commissioning of the Entwistle Facility and the Smithers Facility, we anticipate these facilities to require $3.6 million in annual maintenance capital expenditures.

(7) Reflect post-Offering capital structure, and therefore exclude interest and financing costs on historical credit facilities. We repaid certain of our credit facilities in connection with the Offering.

(8) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 29, 2017, we had unused non-capital loss carryforwards of $96.4 million. We do not anticipate a requirement to pay income tax before 2020.

(9) There was no mandatory amortization for the 13-week periods ended March 30, 2018 and March 31, 2017. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free cash flow decreased $0.3 million to $9.0 million in Q1 2018, down from $9.3 million in Q1 2017. This decrease was due to lower Adjusted EBITDA and higher interest costs.

SUMMARY OF CONSOLIDATED RESULTS AND CERTAIN PERFORMANCE MEASURES

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

	2018	2017				2016		
(In thousands except per share amounts)	Q1 13 Weeks	Q4 13 Weeks	Q3 13 Weeks	Q2 13 Weeks	Q1 13 Weeks	Q4 14 Weeks	Q3 13 Weeks	Q2 13 Weeks
MT of industrial wood pellets sold	**328**	**334**	**387**	**332**	**320**	**335**	**321**	**349**
Revenue	**$ 71,022**	**$ 72,958**	**$ 82,366**	**$ 69,556**	**$ 67,847**	**$ 70,935**	**$ 65,322**	**$ 70,293**
Costs and expenses								
Production	48,520	47,377	51,628	44,863	44,546	46,278	41,437	46,282
Distribution	8,030	9,925	11,568	7,868	9,060	11,079	9,484	10,737
Selling, general and administration	9,217	4,347	4,222	3,493	3,206	4,116	2,867	2,784
Amortization	5,358	5,280	5,365	5,570	5,604	5,557	5,067	5,549
	71,125	**66,929**	**72,783**	**61,794**	**62,416**	**67,030**	**58,855**	**65,352**
Profit (loss) before finance costs and other (income) expenses	**(103)**	**6,029**	**9,583**	**7,762**	**5,431**	**3,905**	**6,467**	**4,941**
Finance cost (income) [2]	382	6,120	6,469	5,835	5,827	(15,004)	5,555	5,080
Other (income) expense [3][4][5]	17,983	(358)	9,146	131	(7)	11,595	(4,201)	190
	18,365	**5,762**	**15,615**	**5,966**	**5,820**	**(3,409)**	**1,354**	**5,270**
Net profit (loss) before income taxes	**(18,468)**	**267**	**(6,032)**	**1,796**	**(389)**	**7,314**	**5,113**	**(329)**
Income tax (expense) recovery								
Current	-	-	-	-	-	(12)	10	-
Deferred [5]	5,694	(163)	2	(469)	104	(4,716)	(1,309)	106
Income Taxes	5,694	(163)	2	(469)	104	(4,728)	(1,299)	106
Net profit (loss) and comprehensive income (loss)	**$ (12,774)**	**$ 104**	**$ (6,030)**	**$ 1,327**	**$ (285)**	**$ 2,586**	**$ 3,814**	**$ (223)**
Net Profit (loss) and comprehensive income (loss) attributable to:								
Owners of the Company	(12,633)	124	(6,371)	1,234	(224)	2,379	3,444	(308)
Non-controlling interests	(141)	(20)	341	93	(61)	207	370	85
Net profit (loss) and comprehensive income (loss)	**$ (12,774)**	**$ 104**	**$ (6,030)**	**$ 1,327**	**$ (285)**	**$ 2,586**	**$ 3,814**	**$ (223)**
Net income (loss) attributable to owners								
Net income (loss) attributable to owners	(12,633)	124	(6,371)	1,234	(224)	2,379	3,444	(308)
Cumulative preferred dividends	(104)	(409)	(309)	(309)	(310)	(310)	(309)	(312)
	$ (12,737)	$ (285)	$ (6,680)	$ 925	$ (534)	$ 2,069	$ 3,135	$ (620)
Net profit (loss) per share attributable to owners								
Basic and diluted	$ (0.58)	$ (0.04)	$ (0.97)	$ 0.13	$ (0.08)	$ 0.30	$ 0.46	$ (0.09)

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 U.S. dollar forward exchange contracts.

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

(3) Class B and Class D common shares, which are classified as liabilities are subject to fair value adjustments. Revaluation gains and losses were recognised as follows: in the third quarter of Fiscal 2017, a loss of $6.0 million (before-tax), and in the fourth quarter of Fiscal 2016, a loss of $10.3 million (before-tax). Upon closing of the Offering in Q1 2018, a gain of $3.6 million (before-tax) was recognised on conversion of Class B and Class D common shares.

(4) In the third quarter of Fiscal 2016, a $4.9 million (before-tax) gain was recognized from our share of a legal settlement.

(5) 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 Offering.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

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

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 as much as $12 million. Shipment timing impacts accounts receivable and finished industrial wood pellet inventories. Payment terms differ for each contract, but we typically receive an initial payment equal to 90% of the total value of a shipment 12 to 15 days after the shipment leaves the port, with the balance received after the vessel fully discharges its cargo to the customer. Less significantly, non-cash working capital is impacted by wood fibre inventory changes due to the accumulation of wood fibre in winter months and increases in whole log volumes and values as we diversify our wood fibre sources and create supply stock piles.

Senior Credit Facilities

As at March 30, 2018, our credit facilities consisted of $200 million of term debt, $130 million of committed delayed draw, and $50 million of committed revolver. All facilities mature on December 13, 2022.

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

At March 30, 2018, the $200 million term loan was in BA loans at 5.12%. At December 29, 2017, the $180 million term loan and the revolver loan were in Canadian dollar Prime loans at 5.70% and the $22 million delayed draw term loan was in a Canadian dollar BA loan at 4.86%. At March 30, 2018, we had issued letters of credit totaling $0.5 million (December 29, 2017 - $0.5 million).

EBITDA and Adjusted EBITDA are defined in our credit agreement and used in the calculation of debt covenants and interest rate margins. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. As at March 30, 2018 and December 29, 2017, the Company was in compliance with all debt covenants.

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

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 Q1 2018 compared to Q1 2017

(In thousands)	Q1 2018 13 Weeks	Q1 2017 13 Weeks	Q1 2018 vs. Q1 2017
Cash flow from operations before net change in non-cash working capital	$ 9,490	$ 10,954	$ (1,464)
Net change in non-cash operating working capital	17,899	809	17,090
Financing activities	13,564	(9,770)	23,334
Investing activities	(27,437)	(3,753)	(23,684)
Other	101	(64)	165
Change in cash	**13,617**	**(1,824)**	**15,441**
Cash at beginning of period	18,908	12,112	6,796
Cash at end of period	$ **32,525**	$ **10,288**	$ **22,237**

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

Cash flow from operations before net change in non-cash working capital decreased by $1.5 million to $9.5 million for Q1 2018, down from $11.0 million for Q1 2017, reflecting the higher cash costs in production in Q1 2018 compared to Q1 2017.

Net change in non-cash working capital

The $17.9 million increase in non-cash working capital in Q1 2018 reflected a decrease in accounts receivable related to cash receipt of revenue proceeds and an increase in accounts payable and accrued liabilities during the period. The $0.8 million increase in non-cash working capital in Q1 2017 reflected a greater combined decrease in accounts receivable and inventory over the decrease in accounts payable and accrued liabilities.

Financing activities

In Q1 2018, financing activities provided $13.6 million of cash primarily from net proceeds of the Offering. In Q1 2017, financing activities used $9.8 million as the Company paid down its credit facilities.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In Q1 2018, cash used for property, plant and equipment was $27.4 million, a $23.7 million increase from Q1 2017. The increase represents the additional cash used for the construction of the Entwistle and Smithers Facilities.

OUTLOOK

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

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

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

Our estimate of $61 to $65 million in Adjusted EBITDA for Fiscal 2018 as previously disclosed remains unchanged.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There were no material changes in Q1 2018 in the contractual obligations, off-balance sheet arrangements or commitments specified in our Fiscal 2017 audited 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 March 30, 2018 was $32.5 million (December 29, 2017 - $18.9 million).

We manage our credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over $5.0 million. The significant majority of our sales are contracted with large utility customers. The accounts receivable balance at March 30, 2018 was $23.5 million (December 29, 2017 - $41.3 million).

Liquidity risk

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

At March 30, 2018, we had available liquidity of $79.8 million (December 29, 2017 - $44.3 million) from our debt facilities and forecast sufficient liquidity throughout Fiscal 2018. 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.

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

Our 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 17 to the Consolidated Financial Statements for outstanding notional amounts of the US dollar forward contracts and their contractual maturities.

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 March 30, 2018, we do not use financial instruments to manage interest rate risk.

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

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

We are subject to certain financial covenants in our debt obligations. Refer to Note 6 to the Consolidated Financial Statements for details. Our strategy is to ensure we remain in compliance with all of our existing covenants so as to ensure continuous access to required debt to fund growth. We review results and forecasts to monitor our compliance.

Disclosure Controls & Procedures and Internal Control Over Financial Reporting

As we recently became a reporting issuer, we intend to file abbreviated CEO and CFO certifications in respect of our first interim period ending after becoming a reporting issuer.

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

Critical Accounting Estimates and Judgments

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

The most significant accounting judgments and estimates that we have made in the preparation of our consolidated financial statements were consistent with that as described in our Fiscal 2017 consolidated financial statements and MD&A.

Significant Accounting Standards Adopted and Issued But Not Effective

Accounting standards adopted in Q1 2018

IFRS 15 — Revenue from Contracts with Customers

We have adopted IFRS 15 *Revenue from Contracts with Customers*, which establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations effective for annual periods beginning on or after January 1, 2018. The Standard establishes a single, principles based five-step model to be applied to all contracts with customers and provide useful information to users of financial statements about the nature, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The adoption of IFRS 15 does not have a material impact on the Consolidated Financial Statements, other than in the form of additional disclosures in the notes therein.

IFRS 9 — Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018. This standard introduces a new model for the classification and measurement of financial assets and liabilities, a single expected credit loss model for the measurement of the impairment of financial assets, and a new model for hedge accounting that is aligned with an entity's risk management activities. The adoption of IFRS 9 does not have a material impact on the Consolidated Financial Statements.

Accounting standards issued but not yet effective

The IASB has issued the following standard that is not yet effective and is relevant to us.

IFRS 16 — Leases

IFRS 16 *Leases*, was issued in January 2016 by the IASB as a replacement for IAS 17 *Leases*. The Standard introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. The Standard is effective for annual periods beginning on or after January 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined but conceptually will result in significant operating leases recorded on our statement of financial position. The current amount of minimum lease payments under operating leases is approximately $55 million. In addition, the reclassification of operating lease payments from cost of sales and other costs to depreciation and interest charges will also impact us.

RELATED PARTY TRANSACTIONS

HPLP transactions

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

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

LPLP transactions

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

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

SPLP transactions

On October 4, 2017, we entered into a limited partnership in respect of SPLP with a non-related third party for the acquisition and development of a wood pellet facility. SPLP is owned 70% by us and 30% by a non-related third party. On October 13, 2017, we contributed $5.6 million and the non-related third party contributed $2.4 million for the purchase of land, plant and equipment, and intangible assets. On March 2, 2018, we and the non-related third party made further contributions of $2.1 million and $0.9 million, respectively.

Controlling entity

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

Upon the completion of our initial public offering on February 6, 2018, the ONCAP Entities owned 42.9% of the Company, and the monitoring fee to ONCAP Management Partners L.P. was discontinued.

Minority shareholder in PRHI

During Q1 2018 and 2017, we paid market rent for the Williams Lake facility to a corporation controlled by the controlling shareholder of one of our minority shareholders, Beckman Holdings Inc., resulting from a lease agreement entered into in the normal course of business and on the same terms accorded to unrelated third parties.

See Note 16 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 May 2, 2018, we had 32,903,221 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of May 2, 2018, an aggregate of 1,694,983 options to acquire Common Shares and 268,312 restricted share units representing the right to Common Shares are outstanding.

SUBSEQUENT EVENTS

On April 23, 2018, we entered into a long-term, take-or-pay off-take contract with Toyota Tsusho to supply 30,000 MTPA of industrial wood pellets commencing in late 2021, as well as a long-term, take-or-pay off-take contract with Sumitomo to supply 75,000 MTPA of industrial wood pellets beginning in late 2022.

On May 2, 2018, we declared a cash dividend of $0.09 per Common Share to shareholders of record as at May 11, 2018, to be paid on May 22, 2018.

Additional Information

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