Third quarter of fiscal 2018

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

November 5, 2018

Management's Discussion & Analysis

Pinnacle.

RENEWABLE HOLDINGS INC.

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated November 5, 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 September 28, 2018 ("Q3 2018") and the 39-week period ended September 28, 2018 ("YTD 2018"). This MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and accompanying notes for Q3 2018 and YTD 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 ending December 28, 2018, references to "Fiscal 2019" are to our 52-week period ending December 27, 2019, and references to "Fiscal 2020" are to our 53-week period ending December 25, 2020. All references in this MD&A to "Q3 2018" are to our 13-week period ended September 28, 2018, references to "Q4 2018" are to our 13-week period ending December 28, 2018, references to "Q3 2017" are to our 13-week period ended September 29, 2017, references to "YTD 2018" are to our 39-week period ended September 28, 2018, and references to "YTD 2017" are to our 39-week period ended September 29, 2017. Our fiscal year is the 52 or 53-week period ending the last Friday of the calendar year. The last 53-week fiscal year occurred in Fiscal 2016.

Forward-Looking Information

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

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

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

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

In addition, this MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Pinnacle's Adjusted EBITDA estimates for Fiscal 2018, which estimates are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. FOFI contained in this document was made as of the date hereof and was provided for the purpose of providing shareholders with information on Pinnacle's financial outlook. Pinnacle disclaims any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable securities laws in Canada. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

Non-IFRS Financial Measures

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

COMPANY OVERVIEW, STRATEGY AND OBJECTIVES

Company Overview

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

As one of only three large global suppliers, we currently operate eight production facilities with a combined run-rate production capacity in excess of 2.1 million metric tons per annum ("MTPA"). We are well positioned to support growing global demand through the construction of new production capacity and the strategic acquisition of existing production facilities. On October 15, 2018, we acquired a 70% interest in the Aliceville Facility (270,000 MTPA). On June 29, 2018, we commenced commercial production at our wholly-owned Entwistle Facility (as defined herein) (400,000 MTPA) and continue to ramp up production. In March 2018, we commenced construction of the Smithers Facility (as defined herein) (125,000 MTPA) in partnership with West Fraser Timber Co. Ltd. ("West Fraser"). The Smithers Facility is expected to commence production in Q4 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 106% of our production capacity through 2021 and nearly 98% of our production capacity through 2026, on an aggregated basis, including new production capacity from the Aliceville, Entwistle and Smithers Facilities. As at September 28, 2018 our total Contracted Backlog (as defined herein) is $5.0 billion.

Strategy and Objectives

Through increasing capacity at our existing production facilities, including the recently acquired Aliceville Facility, 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 will evaluate and pursue acquisition opportunities or other strategic initiatives in Western Canada, in the U.S. Southeast, or in other jurisdictions, such as the U.S. Pacific Northwest and Eastern Canada, to further diversify our asset base, leverage our strong development and operational expertise and capture increased market share.

RECENT DEVELOPMENTS

Initial Public Offering

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

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

Secondary Offering

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

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

Acquisition in U.S. Southeast

On October 15, 2018, we closed the acquisition of a 70% interest in an operating industrial wood pellet production facility located in Aliceville, Alabama (the "Aliceville Facility") from The Westervelt Company ("Westervelt"), a diversified land resources company, at a purchase price of approximately US$37.1 million. Westervelt retained a 30% interest in the Aliceville Facility. We have funded the purchase of our 70% stake in the Aliceville Facility through a draw on our credit facility and cash on hand. Pinnacle and Westervelt are currently undertaking a US$10 million capital spending program to improve safety, product quality and plant efficiencies, with 70% of such costs being attributable to us.

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

MARKET AND OFF-TAKE AGREEMENTS UPDATE

Market Update

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

In Japan, demand continues to grow as independent power producer ("IPP") dedicated projects continue to develop their construction and financing plans. *FutureMetrics Q3 2018* edition shows further Japanese market growth from Japanese coal plant co-firing. Many coal plants are in the process of obtaining certification under the feed-in-tariff, with several having obtained approval as of October 2018.

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

The conversion of existing power generating units in the Netherlands to utilize wood pellets by Uniper SE and RWE AG, two of Europe's largest power generators and energy traders, remain on schedule. Both units are expected to be commissioned during 2018. We made our first shipment to Uniper SE in Q3 2018.

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

New and Extended Off-take Agreements

The following is a summary of long-term sales contracts that we have entered into with customers in Fiscal 2018 (as at November 5, 2018).

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

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

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

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

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

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

During YTD 2018, we have signed five long-term contracts totaling $1.5 billion with customers in Japan. These contracts continue to advance our strategy for sales growth into Japan and build on the overall sales momentum that we had in Fiscal 2017 wherein we signed four new long-term contracts totalling $421 million, a third of which were with customers in Japan. Our growing contract backlog in Japan underlines both the increasing adoption of biomass and the strength of our competitive position in this market.

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

With the inclusion of these new contracts, which have longer terms than our existing contracts and extend past 2030, we have 106% of our production capacity contracted through 2021, and nearly 98% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities. As a result of new contracts totaling $2.3 billion signed in YTD 2018, the weighted average remaining life of our portfolio of off-take contracts with customers has been extended from less than seven years as at end of Fiscal 2017 to more than nine years as at September 28, 2018. As at September 28, 2018, our Contracted Backlog was $5.0 billion.

We have improved our customer diversification. During YTD 2018, three of our customers represented 83% of total revenue, whereas during YTD 2017, three of these customers represented 89% of our total revenue. We have gone from shipping to five major customers in Fiscal 2017 to eight during YTD 2018.

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

OPERATIONAL UPDATE

Existing Production Facilities and Port Operations

We are focused on operational excellence throughout our plant and logistics networks, specifically targeting improvements in safety, production and costs. We have developed capabilities to utilize a broad range of residual biomass in our industrial wood pellet making process. Through investment in log chippers, destoners and other specialized biomass processing equipment, as well as the operational knowledge we have developed in handling a diverse range of biomass feedstocks, we can process a broad spectrum of underutilized biomass residuals including whole logs, bush grind, and other harvest waste residuals, in addition to more traditional biomass residuals such as shavings and sawdust. We have access to a well-established rail infrastructure network in B.C. and Alberta, with all of our production facilities accessible along Canadian National Railway ("CN") rail lines. Our port infrastructure is a critical element of our supply chain and is comprised of our wholly-owned Westview Terminal in Prince Rupert, B.C. and our access to the Fibreco Export Inc. terminal at the Port of Vancouver via a long-term throughput contract.

Our 4.7% same-facility production volume increase in Q3 2018 compared to the same period last year, reflects some record production days at our Burns Lake Facility and continued strong improvements at our Lavington Facility due to pelleter and drying system optimizations. This strong operational performance was achieved despite a challenging environment. During Q3 2018 there were extensive forest fires in B.C., which resulted in some business disruption because of impacted employees and rail service interruption related to the fires. Active management of fibre supply and rail logistics were required to mitigate these factors. None of our facilities were damaged by the forest fires. We are adept at managing our network of facilities to adjust for potential temporary operational disruptions, while achieving production growth from continuous improvement programs.

During Q3 2018, certain fibre suppliers have indicated temporary curtailment of operations because of a combination of declining lumber prices and escalating log costs. We also expect to see tighter supply of logs in B.C. in Q4 2018 and early 2019 as a result of the extensive forest fires in 2018. We actively manage and mitigate risk to our fibre supplies with our extensive network of fibre suppliers, facilities, and our ability to manage a wide range of wood fibre at some of our larger facilities. In addition, we will work closely with our four sawmill partners at our jointly owned facilities and our extensive network of long-term fibre

suppliers to ensure reliable fibre supply through lumber market cycles. For example, during Q3 2018, production output at some of our facilities benefitted from our successful bid for long-term, high-quality fibre supply from a large sawmill in northern B.C.

We shipped a record volume of 421,000 metric tons ("MT") in Q3 2018. The Westview Terminal, a critical element of our ability to minimize logistical costs, performed well in Q3 2018. All production volume from the new Entwistle facility will be shipped from the Westview Terminal. As expected, the 42,000 MT of wood pellets produced during Q3 2018 from the Entwistle Facility were shipped through the Westview Terminal and port logistics were well managed.

New Production Facilities

Entwistle

The Entwistle production facility (the "Entwistle Facility") is owned 100% by Pinnacle. The Entwistle Facility is located in Entwistle, Alberta, 95 kilometres west of Edmonton, in close proximity to abundant wood fibre sources, including several major sawmills. The Entwistle Facility commenced commercial production on June 29, 2018 at capitalised costs of $95.0 million (which include costs incurred to bring the Entwistle Facility to operate in a manner as intended by management, capitalised pre-operating commissioning costs, and capitalised borrowing costs). 14,900 MT of initial production from the Entwistle Facility, which were produced prior to the commencement of commercial production and included in finished goods inventory at the end of Q2 2018, were sold at no margin during Q3 2018.

We continue to 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 mid-year Fiscal 2019. During Q3 2018, our team worked through the expected commissioning challenges at a facility of this size and complexity, as well as the unusual and unanticipated issues related to initially receiving below standard quality fibre with excessive rocks from some of our fibre suppliers and CN's failure to meet agreed interim unit train service expectations. While we have achieved strong daily production rates in excess of our expectations at this stage in the commissioning phase, our overall production of 42,000 MT and costs per MT have been impacted by these issues. In addition, the delay in the completion of the storage silo at the facility exacerbated the rail transportation issues by further constraining the facility's logistics efficiency resulting in higher costs and a requirement to reduce production.

The impact of the commissioning issues at the Entwistle Facility in Q3 2018 is summarised as follows:

Description of Issue	**Unit**	**Impact**
Production volume shortfall[1]	MT	31,000
Production costs (including transportation)		
Excessive rocks in fibre	$000s	$1,200
Storage silo completion delay	$000s	900
CN unit train service failure	$000s	820
Other cash conversion impacts	$000s	750
Total Production Cost impacts	$000s	$3,670

[1] The Entwistle Facility did not produce expected volumes because of the challenges outlined above. As a result, sales which could have occurred in the quarter under our long-term off-take agreements were deferred to future quarters.

Production and cost at the Entwistle Facility will improve in Q4 2018 as the storage silo commenced operations on November 3, 2018, which immediately improves the Entwistle Facility's ability to operate continuously. The operation of the silo will have a positive impact on the remainder of Q4 2018, where only regularly scheduled maintenance shutdowns will take place. This allows the unit train rail service to begin, reducing costs. October 2018 production costs were impacted by lower production volumes prior to the silo completion, as well as continued higher repairs and maintenance costs as a result of the impact of the below standard fibre quality. Daily production volumes achieved regularly during October 2018 support a strong improvement in production volumes for Q4 2018 over Q3 2018 and active management of our fibre quality issue will reduce production costs per MT to match our early commissioning stage expectations. We expect these factors to have a significant positive impact on the performance of the Entwistle Facility in Q4 2018 relative to Q3 2018.

Smithers

The Smithers production facility (the "Smithers Facility") is owned 70% by Pinnacle and 30% by West Fraser through a partnership, Smithers Pellet Limited Partnership ("SPLP"), and is located in Smithers, B.C. 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.

We expect initial pellet production at the Smithers Facility to commence in Q4 2018 and construction is nearing completion. Following commissioning, our management team expects to gradually ramp up the Smithers Facility to ensure all machine centres are performing optimally. We expect the Smithers Facility to ramp up at a more consistent rate than the Entwistle Facility, much like our Lavington Facility. It is a smaller capacity and simpler designed facility with a fibre plan consisting largely of sawdust and shavings, primarily from our limited partner in the facility, West Fraser. With close proximity to our Westview Terminal, a storage silo is not required for the Smithers Facility and rail and logistics costs are reduced. Its full run-rate production of 125,000 MTPA is anticipated in the third quarter of Fiscal 2019.

Aliceville

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

Our experienced operations team is now onsite working with the Aliceville Facility team for safety and operations process training, systems implementation, and asset configuration optimization to continue the production ramp up. Safety and operational performance improvements continue to progress. Production volumes since more active management was introduced have exceeded expectations. Although the Aliceville Facility is not expected to make a significant impact on our Adjusted EBITDA in Q4 2018, it will be well positioned to contribute to Adjusted EBITDA growth in Fiscal 2019

Production Capacity to Meet New and Extended Off-take Agreements

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

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)		Q3 2018 13 weeks		Q3 2017 13 weeks		YTD 2018 39 weeks		YTD 2017 39 weeks
Revenue	$	87.6	$	82.4	$	243.7	$	219.8
Production costs	$	57.2	$	51.6	$	159.6	$	141.0
Distribution costs	$	12.4	$	11.6	$	33.5	$	28.5
Selling, general and administration expenses	$	5.4	$	4.2	$	18.9	$	10.9
Net profit (loss) and comprehensive income (loss)	$	1.5	$	(6.0)	$	(4.8)	$	(5.0)
Adjusted Gross Margin*	$	17.9	$	19.4	$	51.0	$	51.0
Adjusted Gross Margin Percentage*		20.5%		23.5%		20.9%		23.2%
Adjusted EBITDA*	$	14.5	$	16.8	$	41.3	$	43.3
Free Cash Flow*	$	5.0	$	12.9	$	24.0	$	33.5

(In billions)		September 28, 2018		December 29, 2017
Contracted Backlog	$	5.0	$	3.0

* See “Non-IFRS Measures”.

SUMMARY OF FACTORS AFFECTING PERFORMANCE

We believe that our performance and future success depends on a number of factors that present significant opportunities. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See also the “Financial Risk Factors” section of this MD&A and the risk factors identified in 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., continental 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, and is currently the largest global market for wood pellets. However, we expect significant future revenue growth and geographic and customer diversification from the developing Japanese market. Japan supports investment in renewables through a feed-in-tariff system which offers twenty-year support for renewable energy power facilities. We are well-positioned geographically to participate in the growth of this developing market from our location in Western Canada. Changes in governments may result in modifications to these laws and regulatory environments that support the growth of our business. To address this risk, we continue to develop relationships with new customers in different regions.

Revenues and Costs for Deliveries to Customers

We enter into long-term take-or-pay off-take contracts with reliable counterparties, matching shipping requirements with new production availability. We have 106% of our production capacity contracted through 2021, and nearly 98% of our production

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

New Development Projects

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

Following our Development Blueprint, we construct and commission new production facilities to support new sales contracts. 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 gradually ramping up production at the recently constructed Entwistle Facility and constructing the Smithers Facility in accordance with our Development Blueprint. In 2018 we have added 795,000 MT of run-rate production capacity including our Aliceville Facility.

Production

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

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

Wood Fibre and Forest Residuals

Our production facilities are located in regions with a high volume of available, competitively priced and sustainably managed wood fibre ideal for the production of high calorific value industrial wood pellets. We have been successful in extending the terms of wood fibre agreements to support our existing and new production for up to 10 to 15-year terms. We have also expanded the

types of wood fibre used in our production facilities and partnered with four of our largest wood fibre suppliers in the ownership of existing and in-development production facilities. These partnerships help ensure that our wood fibre suppliers have a vested interest in the economic success of our production facilities. Our wood fibre demand is symbiotic with, rather than in competition with, demand for high-grade wood for use by other forest product industries, such as lumber production. The use of un-merchantable logs, bark and other by-product for industrial wood pellet production indirectly supports other forest-related industries as well as the sustainable management of commercial forests.

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

Trucking, Rail and Port Logistics

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

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

Sustainability

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

KEY PERFORMANCE INDICATORS

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

IFRS Measures

Revenue

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

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

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

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

Contracted Backlog

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

Costs of Production and Distribution

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

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

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

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

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

Gross Margin

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

Selling, General and Administration

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

Equity Earnings in HPLP

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

Non-controlling interests

The Lavington Facility is operated through Lavington Pellet Limited Partnership ("LPLP"), 75% owned by 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.

The Aliceville Facility is operated through WPILLC, 70% owned by us with the remaining 30% interest held by Westervelt. Subsequent to the close of the acquisition in Q4 2018, our consolidated results include 100% of the results of the Aliceville Facility with the 30% interest owned by Westervelt disclosed as non-controlling interests.

Non-IFRS Measures

Adjusted Gross Margin Percentage

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

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

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

Adjusted EBITDA

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

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

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

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

Free Cash Flow

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

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

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

CONTRACTED BACKLOG

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

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

Fiscal 2018	$ 0.1
Fiscal 2019	0.4
Fiscal 2020 and thereafter	4.5
Total product sales under Contracted Backlog	**$ 5.0**

RESULTS OF OPERATIONS

Analysis of Results for Q3 2018 to Q3 2017

The following section provides an overview of our financial performance in Q3 2018 compared to Q3 2017.

(In thousands)		Q3 2018 13 weeks		Q3 2017 13 weeks		Q3 2018 vs. Q3 2017
MT of industrial wood pellets sold		**421**		**387**		**34**
Revenue	**$**	**87,606**	**$**	**82,366**	**$**	**5,240**
Costs and expenses						
Production		57,222		51,628		5,594
Distribution		12,360		11,568		792
Selling, general and administration		5,374		4,222		1,152
Amortization		6,719		5,365		1,354
		81,675		**72,783**		**8,892**
Profit before finance costs and other (income) expenses		**5,931**		**9,583**		**(3,652)**
Finance cost		4,360		6,469		(2,109)
Other (income) expense		(399)		9,146		(9,545)
		3,961		**15,615**		**(11,654)**
Net profit (loss) before income taxes		**1,970**		**(6,032)**		**8,002**
Income tax expense (recovery)						
Current		-		-		-
Deferred		454		(2)		456
Income Taxes		454		(2)		456
Net profit (loss) and comprehensive income (loss)	**$**	**1,516**	**$**	**(6,030)**	**$**	**7,546**

Revenue

Revenue for Q3 2018 totaled $87.6 million, an increase of $5.2 million, or 6.4%, compared to $82.4 million for Q3 2017. This increase was primarily attributable to higher sales volume as well as a higher sales price per MT (excluding the impact on revenue of 14,900 MT of initial production from the Entwistle Facility included in finished goods inventory at the end of Q2 2018 that were sold at no margin during Q3 2018).

Production

Production costs were $57.2 million for Q3 2018, an increase of $5.6 million compared to $51.6 million for Q3 2017, primarily due to an increase in sales volume, higher fibre costs and higher cash conversion costs. Higher fibre and cash conversion costs were incurred as we managed facilities impacted by forest fires and related rail disruptions. High repairs and maintenance expenditures at the Entwistle Facility related to initial delivery fibre quality issues and lower than projected production levels due to CN unit train service failures and delays in construction of the storage silo increased rail and cash conversion costs.

Distribution

Distribution costs were $12.4 million for Q3 2018, an increase of $0.8 million compared to $11.6 million for Q3 2017, reflecting higher volumes shipped.

Selling, general and administration

SG&A expenses increased $1.2 million from $4.2 million for Q3 2017 to $5.4 million for Q3 2018. In Q3 2018, SG&A expenses included $0.5 million in incremental salaries, $0.4 million in incremental legal fees and $0.2 million in incremental travel expenses (both primarily related to the acquisition in the U.S. Southeast), and $0.1 million in incremental IT license fees.

Amortization

Amortization expense was $6.7 million for Q3 2018, an increase of $1.3 million compared to $5.4 million for Q3 2017, reflecting the commencement of amortization for property, plant and equipment related to the commencement of commercial production at the Entwistle Facility at the end of Q2 2018. Construction in progress for the Smithers Facility is not subject to amortization until the assets are available for use.

Finance cost

Finance cost was $4.4 million for Q3 2018, a decrease of $2.1 million compared to $6.5 million for Q3 2017, primarily due to a $3.2 million reduction in interest on shareholders' debentures, which were converted into Common Shares upon the closing of the IPO, partially offset by a $1.3 million increase in interest on our credit facilities.

Other (income) expense

In Q3 2018, other income was $0.4 million. Other expense in Q3 2017 was $9.1 million. During Q3 2017, a $6.0 million loss was recognised on the revaluation of Class B and D common shares, and a $3.2 million loss was recognised as a result of the curtailment of our Quesnel facility while we evaluated the long-term viability of this facility.

Income taxes

Income tax expense was $0.5 million in Q3 2018, compared with insignificant income tax recovery in Q3 2017. The increase in income tax expense was primarily attributable to an increase in net profit before taxes in Q3 2018, compared with a net loss before taxes in Q3 2017.

Net profit (loss) and comprehensive income (loss)

Net profit and comprehensive income was $1.5 million in Q3 2018. In Q3 2017, net loss and comprehensive loss was $6.0 million. This variance was primarily attributable to a $9.5 million decrease in other expense and a $2.1 million decrease in finance cost as discussed above, offset by a $3.7 million decrease in profit before finance costs and other (income) expenses.

*Adjusted Gross Margin Percentage**

(In thousands except per MT amounts)		Q3 2018 13 weeks		Q3 2017 13 weeks		Q3 2018 vs. Q3 2017
Profit before finance costs and other income (expenses)	**$**	**5,931**	**$**	**9,583**	**$**	**(3,652)**
Selling, general and administration		5,374		4,222		1,152
Amortization		6,719		5,365		1,354
Equity earnings in HPLP		233		544		(311)
Non-controlling interests		(332)		(341)		9
Adjusted Gross Margin	**$**	**17,925**	**$**	**19,373**	**$**	**(1,448)**
Adjusted Gross Margin per MT**	**$**	**44.15**	**$**	**50.06**	**$**	**(5.91)**
Adjusted Gross Margin Percentage		**20.5%**		**23.5%**		**(3.0%)**

* See “Non-IFRS Measures”.

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

Adjusted Gross Margin Percentage was 20.5% for Q3 2018 ($44.15/MT), a decrease from 23.5% in Q3 2017 ($50.06/MT). The decrease was primarily due to higher production costs associated with start-up at the Entwistle Facility, offset by higher revenue from a planned higher sales price per MT as discussed above.

*Adjusted EBITDA**

(In thousands except per MT amounts)		Q3 2018 13 weeks		Q3 2017 13 weeks		Q3 2018 vs. Q3 2017
MT of industrial wood pellets sold		**421**		**387**		**34**
Net profit (loss) and comprehensive income (loss)	**$**	**1,516**	**$**	**(6,030)**	**$**	**7,546**
Income tax expense		454		(2)		456
Finance costs excluding shareholder debentures (1)		4,640		3,176		1,464
Finance costs on shareholder debentures		-		3,167		(3,167)
Amortization of equipment and intangible assets (2)		6,667		5,267		1,400
EBITDA	**$**	**13,277**	**$**	**5,578**	**$**	**7,699**
EBITDA Adjustments						
Stock-based compensation expense		720		21		699
Loss on disposal of PP&E (3)		(59)		366		(425)
Plant curtailment costs		47		3,571		(3,524)
Revaluation of Class B and Class D common shares		-		6,025		(6,025)
Other items (4)		469		1,211		(742)
Total Adjustments		**1,177**		**5,171**		**(3,994)**
Adjusted EBITDA	**$**	**14,454**	**$**	**16,772**	**$**	**(2,318)**
Adjusted EBITDA per MT**	**$**	**35.60**	**$**	**43.34**	**$**	**(7.74)**

* See “Non-IFRS Measures”.

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

Notes:

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

Adjusted EBITDA for Q3 2018 was $2.3 million lower than Q3 2017. Higher revenue was partially offset by higher production costs associated with start-up at the Entwistle Facility as discussed above.

*Free Cash Flow**

(In thousands)		Q3 2018 13 weeks		Q3 2017 13 weeks		Q3 2018 vs. Q3 2017
Net profit (loss) and comprehensive income (loss)	**$**	**1,516**	**$**	**(6,030)**	**$**	**7,546**
Income tax expense		454		(2)		456
Finance costs excluding shareholder debentures [(1)]		4,640		3,176		1,464
Finance costs (income) on shareholder debentures		-		3,167		(3,167)
Amortization of equipment and intangible assets [(2)]		6,667		5,267		1,400
EBITDA	**$**	**13,277**	**$**	**5,578**	**$**	**7,699**
Stock-based compensation expense		720		21		699
Loss (gain) on disposal of PP&E [(3)]		(59)		366		(425)
Plant curtailment costs		47		3,571		(3,524)
Revaluation of Class B and Class D shares		-		6,025		(6,025)
Other items [(4)]		469		1,211		(742)
Adjusted EBITDA [(5)]	**$**	**14,454**	**$**	**16,772**	**$**	**(2,318)**
Maintenance capital expenditures [(6)]		(3,132)		(2,126)		(1,006)
Interest and finance costs, net [(7)]		(2,365)		(1,704)		(661)
Cash taxes paid [(8)]		-		-		-
Mandatory amortization [(9)]		(4,000)		-		(4,000)
Free Cash Flow	**$**	**4,957**	**$**	**12,942**	**$**	**(7,985)**

* 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 Secondary Offering in the second quarter of Fiscal 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP and SPLP.
(5) See definition of Adjusted EBITDA in the section entitled "Key Performance Indicators" and reconciliation of Adjusted EBITDA to net income in "Results of Operations".
(6) "Maintenance capital expenditures" refers to cash expenditures to maintain long-term operating capacity or net income. Annual maintenance capital expenditure allows for the maintenance of long-term operating capacity or net income. We anticipate the recently commissioned Entwistle Facility and the soon to be commissioned Smithers Facility to require $3.6 million in annual maintenance capital expenditures.
(7) Reflect post-IPO capital structure, and therefore exclude interest and financing costs on historical credit facilities. We repaid certain of our credit facilities in connection with the IPO.
(8) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 29, 2017, we had unused non-capital loss carryforwards of $96.4 million. We do not anticipate a requirement to pay income tax before 2020.
(9) There was no mandatory amortization for Q3 2017. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free cash flow decreased $7.9 million from $12.9 million in Q3 2017 to $5.0 million in Q3 2018. The decrease is primarily due to mandatory amortization of term debt of $4.0 million, a decrease in Adjusted EBITDA of $2.3 million, an increase in maintenance capital expenditures of $1.0 million, and an increase of $0.7 million in net interest and finance costs.

Analysis of Results for YTD 2018 to YTD 2017

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

(In thousands)	YTD 2018 39 weeks	YTD 2017 39 weeks	YTD 2018 vs. YTD 2017
MT of industrial wood pellets sold	**1,134**	**1,039**	**95**
Revenue	**$ 243,712**	**$ 219,769**	**$ 23,943**
Costs and expenses			
Production	159,635	141,037	18,598
Distribution	33,528	28,496	5,032
Selling, general and administration	18,856	10,921	7,935
Amortization	17,458	16,539	919
	229,477	**196,993**	**32,484**
Profit before finance costs and other expenses	**14,235**	**22,776**	**(8,541)**
Finance cost	4,783	18,131	(13,348)
Other (income) expense	17,264	9,270	7,994
	22,047	**27,401**	**(5,354)**
Net loss before income taxes	**(7,812)**	**(4,625)**	**(3,187)**
Income tax expense (recovery)			
Current	-	-	-
Deferred	(3,058)	363	(3,421)
Income Taxes	(3,058)	363	(3,421)
Net loss and comprehensive loss	**$ (4,754)**	**$ (4,988)**	**$ 234**

Revenue

Revenue for YTD 2018 totaled $243.7 million, an increase of $23.9 million, or 10.9%, compared to $219.8 million for YTD 2017. This increase was attributable to higher sales volume and an increase in the average sales price per MT.

Production

Production costs were $159.6 million for YTD 2018, an increase of $18.6 million from $141.0 million for YTD 2017, primarily due to an increase in sales volume and higher fibre and cash conversion costs. High repairs and maintenance expenditures at the Entwistle Facility related to initial delivery fibre quality issues and lower than projected production levels due to CN unit train service failures and delays in construction of the storage silo increased rail and cash conversion costs. In addition, the aforementioned higher fibre and cash conversion costs were incurred as we managed facilities impacted by forest fires and related rail disruptions.

Distribution

Distribution costs were $33.5 million for YTD 2018, an increase of $5.0 million compared to $28.5 million for YTD 2017, primarily due to an increase in distribution facility costs.

Selling, general and administration

SG&A expenses increased $8.0 million from $10.9 million for YTD 2017 to $18.9 million for YTD 2018. SG&A expenses in YTD 2018 include certain professional fees incurred in connection with the IPO and the Secondary Offering of $1.2 million and $0.3 million, respectively, and $0.9 million of legal fees related to a damage claim we are pursuing against one of our equipment suppliers. In YTD 2017, legal fees related to this claim were $0.7 million. In addition, in YTD 2017, $0.4 million of professional fees related to the Entwistle Facility previously incurred were capitalised upon board approval of the project. Excluding the above items, SG&A expenses increased $5.9 million from YTD 2017 to YTD 2018. Of this $5.9 million increase, $5.0 million relates to

incremental stock-based compensation expense in YTD 2018, and $0.9 million relates to increases in administrative wages and benefits.

Amortization

Amortization expense increased by $0.9 million from $16.5 million in YTD 2017 to $17.5 million in YTD 2018. 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. The increase in amortization is primarily due to the commencement of amortization for property, plant and equipment related to the commencement of commercial production for the Entwistle Facility at the end of Q2 2018.

Finance cost

Finance cost was $4.8 million in YTD 2018, a decrease of $13.3 million from $18.1 million in YTD 2017. This decrease was primarily due to a $9.1 million reduction in interest on shareholders' debentures, which were converted into Common Shares upon the closing of the IPO, and a $4.3 million fluctuation in the fair value of foreign exchange derivative contracts, offset by an $0.4 million increase in interest on credit facilities.

Other expense

In YTD 2018, other expense was $17.3 million, primarily due to a $21.9 million loss on conversion of shareholders' debentures, partially 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. Other expense in YTD 2017 was $9.3 million, primarily related to a $6.0 million loss recognised on the revaluation of Class B and D common shares, and a $3.2 million loss was recognised as a result of the curtailment of our Quesnel facility while we evaluated the long-term viability of this facility.

Income taxes

Income tax recovery was $3.1 million in YTD 2018. In YTD 2017, income tax expense was $0.4 million. The change was primarily attributable to deferred income tax recovery on the loss on conversion of shareholders' debentures into Common Shares upon closing of the IPO.

Net loss and comprehensive loss

Net loss and comprehensive loss was $4.8 million in YTD 2018, a decrease of $0.2 million from $5.0 million in YTD 2017. The decreased net loss and comprehensive loss was primarily attributable to a $8.5 million decrease in profit before finance costs and other expenses and an $8.0 million increase in other expenses, offset by a $13.3 million decrease in finance costs and an $3.4 million net increase in income tax recovery as discussed above.

*Adjusted Gross Margin Percentage**

(In thousands except per MT amounts)		YTD 2018 39 weeks		YTD 2017 39 weeks		YTD 2018 vs. YTD 2017
Profit before finance costs and other income (expenses)	**$**	**14,235**	**$**	**22,776**	**$**	**(8,541)**
Selling, general and administration		18,856		10,921		7,935
Amortization		17,458		16,539		919
Equity earnings in HPLP		906		1,126		(220)
Non-controlling interests		(477)		(373)		(104)
Adjusted Gross Margin	**$**	**50,978**	**$**	**50,989**	**$**	**(11)**
Adjusted Gross Margin per MT**	**$**	**45.56**	**$**	**49.08**	**$**	**(3.52)**
Adjusted Gross Margin Percentage		**20.9%**		**23.2%**		**(2.3%)**

* See “Non-IFRS Measures”.

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

Adjusted Gross Margin Percentage was 20.9% for YTD 2018 ($45.56/MT), down from 23.2% in YTD 2017 ($49.08/MT), primarily due to higher production costs associated with start-up at the Entwistle Facility, planned higher fibre costs, higher fibre costs for incremental production volume from our legacy production facilities as they increased production to offset the shortfall at the Entwistle Facility, partially offset by higher revenue from a planned higher sales price per MT as discussed above.

*Adjusted EBITDA**

(In thousands except per MT amounts)		YTD 2018 39 weeks		YTD 2017 39 weeks		YTD 2018 vs. YTD 2017
MT of industrial wood pellets sold		**1,134**		**1,039**		**95**
Net loss and comprehensive loss	**$**	**(4,754)**	**$**	**(4,988)**	**$**	**234**
Income tax expense		(3,058)		363		(3,421)
Finance costs excluding shareholder debentures [1]		5,164		8,925		(3,761)
Finance costs on shareholder debentures		-		9,118		(9,118)
Amortization of equipment and intangible assets [2]		17,190		16,306		884
EBITDA	**$**	**14,542**	**$**	**29,724**	**$**	**(15,182)**
EBITDA Adjustments						
Stock-based compensation expense		5,099		65		5,034
Loss on disposal of PP&E [3]		173		571		(398)
Plant curtailment costs		155		4,573		(4,418)
Loss on conversion of shareholder debentures		21,881		-		21,881
Revaluation of Class B and Class D common shares		(3,563)		6,025		(9,588)
Other items [4]		2,985		2,388		597
Total Adjustments		**26,730**		**7,599**		**19,131**
Adjusted EBITDA	**$**	**41,272**	**$**	**43,346**	**$**	**(2,074)**
Adjusted EBITDA per MT**	**$**	**36.88**	**$**	**41.72**	**$**	**(4.84)**

* See "Non-IFRS Measures".

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

Notes:

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

Adjusted EBITDA was $41.3 million in YTD 2018, a decrease of $2.0 million from $43.3 million in YTD 2017. Higher revenue was partially offset by higher production costs associated with start-up at the Entwistle Facility as discussed above.

*Free Cash Flow**

(In thousands)		YTD 2018 39 weeks		YTD 2017 39 weeks		YTD 2018 vs. YTD 2017
Net loss and comprehensive loss	**$**	**(4,754)**	**$**	**(4,988)**	**$**	**234**
Income tax expense		(3,058)		363		(3,421)
Finance costs excluding shareholder debentures [(1)]		5,164		8,925		(3,761)
Finance costs (income) on shareholder debentures		-		9,118		(9,118)
Amortization of equipment and intangible assets [(2)]		17,190		16,306		884
EBITDA	**$**	**14,542**	**$**	**29,724**	**$**	**(15,182)**
Stock-based compensation expense		5,099		65		5,034
Loss on disposal of PP&E [(3)]		173		571		(398)
Plant curtailment costs		155		4,573		(4,418)
Loss on conversion of shareholder debentures		21,881		-		21,881
Revaluation of Class B and Class D shares		(3,563)		6,025		(9,588)
Other items [(4)]		2,985		2,388		597
Adjusted EBITDA [(5)]	**$**	**41,272**	**$**	**43,346**	**$**	**(2,074)**
Maintenance capital expenditures [(6)]		(5,449)		(4,491)		(958)
Interest and finance costs, net [(7)]		(5,845)		(5,400)		(445)
Cash taxes paid [(8)]		-		-		-
Mandatory amortization [(9)]		(6,000)		-		(6,000)
Free Cash Flow	**$**	**23,978**	**$**	**33,455**	**$**	**(9,477)**

* 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 IPO and Secondary Offering in YTD 2018 of $1.2 million and $0.3 million, respectively, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP and SPLP.
(5) See definition of Adjusted EBITDA in the section entitled "Key Performance Indicators" and reconciliation of Adjusted EBITDA to net income in "Results of Operations".
(6) "Maintenance capital expenditures" refers to cash expenditures to maintain long-term operating capacity or net income. Annual maintenance capital expenditure allows for the maintenance of long-term operating capacity or net income. We anticipate the recently commissioned Entwistle Facility and the soon to be commissioned Smithers Facility to require $3.6 million in annual maintenance capital expenditures.
(7) Reflect post-IPO capital structure, and therefore exclude interest and financing costs on historical credit facilities. We repaid certain of our credit facilities in connection with the IPO.
(8) In recent years, we have accumulated significant net operating losses that will shield future earnings from taxes. As at December 29, 2017, we had unused non-capital loss carryforwards of $96.4 million. We do not anticipate a requirement to pay income tax before 2020.
(9) There was no mandatory amortization for YTD 2017. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free cash flow was $24.0 million in YTD 2018, a decrease of $9.5 million from $33.5 million in YTD 2017. This decrease was primarily due to mandatory amortization of our term debt of $6.0 million, a decrease in Adjusted EBITDA of $2.1 million, an increase in maintenance capital expenditures of $1.0 million, and an increase in net interest and finance costs of $0.4 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]

(In thousands except per share amounts)	2018			2017				2016
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
	13 Weeks	**13 Weeks**	**13 Weeks**	**13 Weeks**	**13 Weeks**	**13 Weeks**	**13 Weeks**	**14 Weeks**
MT of industrial wood pellets sold	**421**	**385**	**328**	**334**	**387**	**332**	**320**	**335**
Revenue	**$ 87,606**	**$ 85,084**	**$ 71,022**	**$ 72,958**	**$ 82,366**	**$ 69,556**	**$ 67,847**	**$ 70,935**
Costs and expenses								
Production	57,222	53,893	48,520	47,377	51,628	44,863	44,546	46,278
Distribution	12,360	13,138	8,030	9,925	11,568	7,868	9,060	11,079
Selling, general and administration	5,374	4,265	9,217	4,347	4,222	3,493	3,206	4,116
Amortization	6,719	5,381	5,358	5,280	5,365	5,570	5,604	5,557
	81,675	**76,677**	**71,125**	**66,929**	**72,783**	**61,794**	**62,416**	**67,030**
Profit (loss) before finance costs and other (income) expenses	5,931	8,407	(103)	6,029	9,583	7,762	5,431	3,905
Finance cost (income) [2]	4,360	41	382	6,120	6,469	5,835	5,827	(15,004)
Other (income) expense [3][4]	(399)	(320)	17,983	(358)	9,146	131	(7)	11,595
	3,961	**(279)**	**18,365**	**5,762**	**15,615**	**5,966**	**5,820**	**(3,409)**
Net profit (loss) before income taxes	**1,970**	**8,686**	**(18,468)**	**267**	**(6,032)**	**1,796**	**(389)**	**7,314**
Income tax expense (recovery)								
Current	-	-	-	-	-	-	-	(12)
Deferred [5]	454	(2,182)	5,694	(163)	2	(469)	104	(4,716)
Income Taxes	454	(2,182)	5,694	(163)	2	(469)	104	(4,728)
Net profit (loss) and comprehensive income (loss)	**$ 1,516**	**$ 6,504**	**$ (12,774)**	**$ 104**	**$ (6,030)**	**$ 1,327**	**$ (285)**	**$ 2,586**
Net profit (loss) and comprehensive income (loss) attributable to:								
Owners of the Company	1,184	6,218	(12,633)	124	(6,371)	1,234	(224)	2,379
Non-controlling interests	332	286	(141)	(20)	341	93	(61)	207
Net profit (loss) and comprehensive income (loss)	**$ 1,516**	**$ 6,504**	**$ (12,774)**	**$ 104**	**$ (6,030)**	**$ 1,327**	**$ (285)**	**$ 2,586**
Net income (loss) attributable to owners								
Net income (loss) attributable to owners	1,184	6,218	(12,633)	124	(6,371)	1,234	(224)	2,379
Cumulative preferred dividends	-	-	(104)	(409)	(309)	(309)	(310)	(310)
	$ 1,184	$ 6,218	$ (12,737)	$ (285)	$ (6,680)	$ 925	$ (534)	$ 2,069
Net profit (loss) per share attributable to owners								
Basic and diluted	$ 0.04	$ 0.19	$ (0.58)	$ (0.04)	$ (0.97)	$ 0.13	$ (0.08)	$ 0.30

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.

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

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

(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 "Summary of Factors Affecting Performance" and "Risk Factors" in this MD&A for additional information. We review investment opportunities in the normal course of our business and may make select investments to implement our business strategy when suitable opportunities arise.

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

Non-cash Working Capital

"Non-cash working capital" is defined as the sum of accounts receivable, inventories, and other current assets, less accounts payable and accrued liabilities, and other current liabilities. Non-cash working capital excludes cash, the current portion of our long-term debt including the revolving credit facility and therefore provides our management and investors with a clear understanding of the efficiency of our operational working capital needs. Our need for non-cash working capital is highly dependent on the timing of shipments, particularly at the end of a period as a total shipment can be valued 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 September 28, 2018, our credit facilities consisted of $200 million of term debt, $130 million of committed delayed draw, and $50 million of committed revolver. All facilities mature on December 13, 2022.

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

During the 13-week and 39-week periods ended September 28, 2018 we made scheduled repayments of $4 million and $6 million, respectively, on our term loan (13-week and 39-week periods ended September 29, 2017 – Nil). At September 28, 2018, the $194 million term loan was in a Canadian dollar BA loan at 5.30% and the $4 million revolver was in a Canadian dollar BA loan at 6.20%. 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 September 28, 2018, we had issued letters of credit totaling $1.4 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 September 28, 2018 and December 29, 2017, the Company was in compliance with all debt covenants.

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

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 2018 compared to Q3 2017

(In thousands)	Q3 2018 13 weeks	Q3 2017 13 weeks	Q3 2018 vs. Q3 2017
Cash flow from operations before net change in non-cash working capital	$ 14,211	$ 15,460	$ (1,249)
Net change in non-cash operating working capital	(11,923)	(3,925)	(7,998)
Financing activities	(5,268)	10,412	(15,680)
Investing activities	(12,093)	(16,385)	4,292
Other	4	(119)	123
Change in cash	**(15,069)**	**5,443**	**(20,512)**
Cash at beginning of period	22,345	6,152	16,193
Cash at end of period	**$ 7,276**	**$ 11,595**	**$ (4,319)**

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 $1.2 million to $14.2 million for Q3 2018 from $15.5 million for Q3 2017, primarily due to higher cash costs of production in Q3 2018 compared to Q3 2017.

Net change in non-cash working capital

The $11.9 million increase in non-cash working capital in Q3 2018 was primarily comprised of a $5.3 million increase in accounts receivable, an $3.6 million increase in inventory, and a $1.5 million increase in other current assets. The $3.9 million increase in non-cash working capital in Q3 2017 was primarily comprised of a $4.1 million increase in inventory and a $2.1 million increase in accounts receivable, partially offset by a $1.3 million decrease in other current liabilities.

Financing activities

In Q3 2018, financing activities used $5.3 million of cash primarily from $4.9 million in dividends paid, $4.0 million in term debt paid, $2.8 million in finance costs paid, partially offset by $3.5 million in revolver loan drawn and $3.0 million net investment from non-controlling interest. In Q3 2017, financing activities provided $10.4 million, primarily from $12.5 million in net revolver loan drawn, partially offset by $1.8 million in finance costs paid.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In Q3 2018, cash used for property, plant and equipment was $12.2 million, a $4.2 million decrease from Q3 2017. The decrease represents the lower cash used for the construction of the Smithers Facilities in Q3 2018 as compared with that used for the Entwistle Facility and various capital projects in Q3 2017.

Analysis of cash flows for YTD 2018 compared to YTD 2017

(In thousands)	YTD 2018 39 weeks	YTD 2017 39 weeks	YTD 2018 vs. YTD 2017
Cash flow from operations before net change in non-cash working capital	$ 37,692	$ 39,823	$ (2,131)
Net change in non-cash operating working capital	1,519	(4,881)	6,400
Financing activities	(1,180)	7,647	(8,827)
Investing activities	(49,989)	(42,896)	(7,093)
Other	326	(210)	536
Change in cash	**(11,632)**	**(517)**	**(11,115)**
Cash at beginning of period	18,908	12,112	6,796
Cash at end of period	**$ 7,276**	**$ 11,595**	**$ (4,319)**

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 $2.1 million to $37.7 million for YTD 2018 from $39.8 million for YTD 2017, reflecting the higher cash costs in production in YTD 2018 compared to YTD 2017.

Net change in non-cash working capital

The $1.5 million decrease in non-cash working capital in YTD 2018 was primarily comprised of a $12.1 million decrease in other current liabilities and a $1.5 million increase in inventory, offset by a $10.5 million decrease in accounts receivable and a $4.8 million increase in accounts payable and accrued liabilities. The $4.9 million increase in non-cash working capital in YTD 2017 was primarily comprised of a $8.2 million decrease in accounts payable and accrued liabilities and an $4.6 million increase in inventory, partially offset by a $3.5 million decrease in accounts receivable, a $3.2 million increase in other current liabilities, and a $1.2 million decrease in other current assets.

Financing activities

In YTD 2018, financing activities used $1.2 million of cash, primarily from net proceeds of the IPO of $64.6 million and investment from non-controlling interests of $4.4 million, offset by 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. In YTD 2017, financing activities provided $7.6 million primarily from $11.9 million in net revolver loan drawn and $3.0 million in term debt drawn, partially offset by $6.9 million in finance costs paid.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In YTD 2018, cash used for property, plant and equipment was $50.2 million, an $7.1 million increase from YTD 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 profitability over the next several years as a result of our current production facility development projects as well as contracted price increases in most of our off-take agreements. In addition, we believe that as the potential demand for industrial wood pellets continues to grow globally, we are well positioned to meet this demand growth through a combination of expansion projects at existing production facilities and new greenfield and brownfield growth projects. Moreover, we will continue to evaluate potential acquisitions to grow our production platform.

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

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

As a result of the impact on production volumes and costs of CN rail disruptions, record B.C. forest fires, and the Entwistle Facility commissioning issues outlined above, we have revised our estimate of Adjusted EBITDA for Fiscal 2018 from $61 to $65 million to $57 to $60 million. We have now completed the Entwistle Facility storage silo, improved the quality of Entwistle inbound fibre, and moved the Entwistle Facility along the commissioning curve, so we expect improved performance in November and December of 2018. We remain concerned, however, about CN performance for Q4 2018. Despite CN's investment in people and equipment, early Q4 2018 performance, even prior to the cold winter weather, has been challenged.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There were no material changes in Q3 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 September 28, 2018 was $7.3 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 September 28, 2018 was $31.0 million (December 29, 2017 - $41.3 million).

Liquidity risk

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

At September 28, 2018, we had available liquidity of $53.8 million (December 29, 2017 - $44.3 million) from our debt facilities and cash balances 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. At September 28, 2018, our ratio of net debt to last twelve month Adjusted EBITDA was 3.47 times. This ratio was higher than our target of 3.25 times because of the investment in significant new capacity at the Entwistle and Smithers Facilities in advance of achieving run-rate Adjusted EBITDA.

Market risk

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

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

Foreign currency

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 September 28, 2018, we do not use financial instruments to manage interest rate risk.

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

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

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

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

Changes in Internal Control Over Financial Reporting

There were no changes to our disclosure controls and procedures and internal control over financial reporting during Q3 2018.

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

Critical Accounting Estimates and Judgments

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

The most significant accounting judgments and estimates that we have made in the preparation of 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 the first quarter of Fiscal 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

Company is using modified retrospective approach for transition. The extent of the impact of adoption of IFRS 16 has not yet been fully determined, but the initial analysis of impact on the statement of financial position is an increase in assets in the form of right-to-use assets and in liabilities is between $25 million to $30 million. The discount rate used is based on the Canadian Marketable Bond average yields for 5-10 year rate plus risk premium. A 1% change in rate would increase or decrease the amount of initial recognition by approximately $1 million. The company expects to complete its analysis prior to releasing its annual consolidated financial statements and will provide further disclosures in those statements.

RELATED PARTY TRANSACTIONS

HPLP transactions

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

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

LPLP transactions

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

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

SPLP transactions

SPLP is owned 70% by us and 30% by a non-related third party. We and the non-related third party make contributions proportionate to our ownership interest to fund the construction of the Smithers Facility. Production at the Smithers Facility is expected to commence in Q4 2018.

Controlling entity

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

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

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

Minority shareholder in PRHI

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

Upon completion of the IPO, Beckman Holdings Inc. ceased to be a shareholder of the Company.

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 November 5, 2018, we had 33,003,713 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of November 5, 2018, an aggregate of 1,734,491 options to acquire Common Shares and 271,921 restricted share units representing the right to Common Shares are outstanding.

SUBSEQUENT EVENT

On October 15, 2018, we closed the acquisition of a 70% interest in the Aliceville Facility from Westervelt for US$37.1 million financed from a draw on our credit facility and cash on hand.

On November 5, 2018, we declared a cash dividend of $0.15 per Common Share to shareholders of record as at November 14, 2018, to be paid on November 23, 2018.

Additional Information

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