First Quarter of Fiscal 2019

For the 13-week periods ended
March 29, 2019 and
March 30, 2018

May 8, 2019

Management's Discussion & Analysis

Pinnacle.
RENEWABLE ENERGY INC.

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated May 8, 2019 provides information concerning the financial condition and results of operations of Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings Inc. and, collectively with its consolidated subsidiaries, the "Company", "Pinnacle", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial and operating results for the 13-week period ended March 29, 2019 ("Q1 2019"). This MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and accompanying notes for Q1 2019 (the "Consolidated Financial Statements"), as well as our audited consolidated financial statements and accompanying notes for Fiscal 2018 (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, all references to "Fiscal 2017" are to our 52-week period ended December 29, 2017, all references to "Fiscal 2018" are to our 52-week period ended December 28, 2018, all references to "Fiscal 2019" are to our 52-week period ending December 27, 2019, all references to "Fiscal 2020" are to our 53-week period ending December 25, 2020, and all references to "Fiscal 2021" are to our 52-week period ending December 31, 2021. All references in this MD&A to "Q1 2018" are to our 13-week period ended March 30, 2018, and all references to "Q2 2019" are to our 13-week period ending June 28, 2019. 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. All dollar amounts are expressed in Canadian currency, unless indicated otherwise.

Forward-Looking Information

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

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

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the factors discussed in the "Financial Risk Factors" section of this MD&A and in the "Risk Factors" section of our Annual Information Form ("AIF") dated March 19, 2019, which can be accessed under the Company's profile on SEDAR at www.sedar.com. The Company cautions that the list of risk factors and uncertainties described herein and in the AIF are not intended to represent a complete list of the factors that could affect us. Readers are urged to consider such risks, uncertainties and factors carefully in evaluating the forward-looking information, and are cautioned to not place undue reliance on such information.

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

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

Non-IFRS Financial Measures

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

COMPANY OVERVIEW, HISTORY, STRATEGY AND OBJECTIVES

Company Overview

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

As one of only three large global suppliers, we currently operate nine production facilities with a combined run-rate production capacity in excess of 2.2 million metric tons per annum ("MTPA"). We are well-positioned to support growing global demand through the construction of new production capacity and the strategic acquisition of existing production facilities. On June 29, 2018, we commenced commercial production at our wholly-owned Entwistle Facility (as defined herein) (400,000 MTPA) and are currently operating at a reduced capacity while we work to return the Entwistle Facility to its commissioning curve. On October

15, 2018, we acquired a 70% interest in an operating industrial wood pellet production facility located in Aliceville, Alabama (the “Aliceville Facility”) (270,000 MTPA). Early in Fiscal 2019, we commenced commercial production at a wood pellet production facility located in Smithers, British Columbia, Canada (“B.C.”) in partnership with West Fraser Timber Co. Ltd. (“West Fraser”) (the “Smithers Facility”) (125,000 MTPA). For additional information regarding these facilities, see “Operational Update – New Production Facilities”.

We have entered into long-term take-or-pay contracts with our customers, whereby the buyer has a firm obligation to purchase a fixed quantity of product at specific prices, that represent an average of 106% of our production capacity through 2026 on an aggregated basis, including new production capacity from the Aliceville, Entwistle and Smithers Facilities, and expanded Williams Lake and Meadowbank Facilities. As at March 29, 2019, our total Contracted Backlog (as defined herein) was $6.4 billion.

History

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

On February 6, 2018, we completed an initial public offering (the “IPO”) of our common shares (the “Common Shares”). The IPO included a treasury offering by us and a secondary offering of Common Shares by certain of our shareholders. Pursuant to the IPO, we sold 6,223,889 Common Shares for total gross proceeds of approximately $70 million and the selling shareholders sold 9,111,361 Common Shares for total gross proceeds of approximately $102.5 million. The Common Shares are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “PL”.

On June 26, 2018, certain shareholders of the Company completed a secondary offering (the “Secondary Offering”) of 4,186,000 Common Shares for total gross proceeds of approximately $58 million, further increasing our capital market liquidity.

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

Strategy and Objectives

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

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

RECENT DEVELOPMENTS

Entwistle Facility

On February 11, 2019, a fire and explosion occurred in the dryer area of the Entwistle Facility causing damage to the dryer and surrounding equipment (the “Entwistle Incident”). On March 29, 2019 we resumed partial operations at the Entwistle Facility at reduced levels with the production of pellets from dry fibre. A plan to rebuild and restart the dryer in the fourth quarter of Fiscal 2019 has been prepared. We are actively working with our customers and partners to mitigate the impacts of the anticipated 2019 production shortfall. We are also working with our insurance providers to determine the insurance recoveries available for the capital costs incurred to rebuild the dryer and the related damaged equipment, incident response costs, fixed overhead costs for the dryer side, and costs related to business continuity and lost profits from business interruption.

As of March 29, 2019, we have recognised an impairment charge of $9.4 million for assets impaired in the incident which has reduced property, plant and equipment and lowered net income for the period. The net income impact has been partially offset by an initial $3.0 million of insurance proceeds (net of deductibles) recorded in net income and in accounts receivable on the balance sheet as we expect to receive this amount in May 2019, which will positively impact free cash flow in Q2 2019.

Total capital costs and other expenses required to replace the dryer and restore the Entwistle Facility to the planned operating rate are estimated to be in the range of $21.0 million to $25.0 million. The capital asset portion of this is estimated to be $13.0 million to $15.0 million, of which $2.2 million was reflected in construction in progress in property, plant and equipment as at March 29, 2019. The remaining costs are estimated to be in the range of $8 million to $10 million, which relates to fixed overhead and incident response costs, of which $2.1 million was reflected in production costs in Q1 2019 and the remaining amount will be incurred through to the end of Fiscal 2019 as we return the Entwistle Facility to its pre incident commissioning curve. We expect substantially all costs incurred to be recoverable through insurance, subject to deductibles.

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

New Off-take Agreement

On March 28, 2019, 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, our third with this customer, we will supply 200,000 MTPA of industrial wood pellets starting in 2022.

With the inclusion of the new contract entered into during Q1 2019, we now have an average of 106% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle, and Smithers Facilities, and incremental production capacity of the Williams Lake and Meadowbank Facilities. The majority of the new volume demand commences in 2021 and beyond. Our Contracted Backlog as at March 29, 2019 was $6.4 billion, representing an 8% increase over our Contracted Backlog as at December 28, 2018 of $5.9 billion and a 113% increase over our Contracted Backlog as at December 29, 2017 ($3.0 billion).

New and Expanded Production Facilities and Rail Infrastructure

Williams Lake and Meadowbank

Subject to completion of the consultation and environmental permitting processes in Q2 2019, we will commence upgrades at our Williams Lake and Meadowbank Facilities, located within the Cariboo region of B.C., with the installation of new fibre drying and air filtration equipment, as well as improvements to access infrastructure. The upgrades will allow the two facilities to process a broader array of fibre sources available in the region and achieve a series of air system safety and environmental advancements. The upgrades of the Williams Lake and Meadowbank Facilities are expected to result in an increase of 80,000 MTPA of wood pellets in our overall production capacity. This strategic investment will enhance the operating flexibility of our Williams Lake and Meadowbank Facilities and better position us to adapt to cyclical changes in wood fibre supply within the B.C. interior. Further, the equipment, technology and infrastructure improvements we are undertaking will result in improved facility operating efficiencies, lower emissions, local employment opportunities and greater overall facility safety. The capital cost of the upgrade is expected to be approximately $34 million, resulting in an estimated capital cost to run-rate EBITDA ratio of approximately 5.0x to 5.5x. We will fund the upgrades from draws on our credit facilities. We expect the facility upgrades to be completed and to commence commissioning by the end of the fourth quarter of Fiscal 2019.

Smithers Facility Commencement of Production

In November 2018, we commenced initial pellet production at the Smithers Facility, a joint venture with West Fraser. The majority of the fibre utilized by the Smithers Facility is supplied locally by West Fraser. In early Fiscal 2019, we commenced commercial production at the Smithers Facility. The Smithers Facility has been exceeding our initial production expectations during Q1 2019. Full run-rate production of 125,000 MTPA is expected in the third quarter of Fiscal 2019.

Canadian National Railway ("CN") Rail Agreement

On May 1, 2019, we executed an agreement for rail rates for a five-year term for our operations in Western Canada with CN. This agreement provides rate and service stability for rail transport for a significant portion of our business.

Implementation of IFRS 16 *Leases*

We adopted IFRS 16 *Leases* ("IFRS 16") at the beginning of Fiscal 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

We have elected to apply the modified retrospective approach upon adoption at December 29, 2018, measuring the right-of-use asset at an amount equal to the lease liability. The short-term and low-value recognition exemptions available under the standard were utilized, along with certain practical expedients. Accordingly, the comparative information presented for Fiscal 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 *Leases* ("IAS 17") and related interpretations.

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

Also in relation to those leases under IFRS 16, we have recognised depreciation and interest costs, instead of operating lease expense. During Q1 2019, we recognised $1.7 million of depreciation charges and $0.6 million of interest costs from these leases.

As a result of applying IFRS 16, Adjusted Gross Margin and Adjusted EBITDA for Q1 2019 have increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Also in relation to applying IFRS 16, Free Cash Flow for Q1 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17, partially offset by a decrease of $0.6 million related to interest costs (increase in net interest and finance costs includes interest payment expense on capital leases under IFRS 16 of $0.6 million).

MARKET AND OFF-TAKE AGREEMENTS UPDATE

Market Update

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

In Japan, demand continues to grow as independent power producer ("IPP") dedicated projects continue to develop their construction and financing plans. *FutureMetrics Q1 2019* edition notes that the Japanese government is reportedly considering enacting a policy that will require IPPs using palm kernel shells ("PKS") to meet certain sustainability criteria. PKS is a primary fuel for many IPPs in Japan that plan to generate power with the benefit of the feed-in-tariff. This policy change, if implemented, would result in limitation of the amount of PKS that could be used in Japan. Many of these projects also use industrial wood pellets in their fuel mix. *FutureMetrics* expects pellet demand from these utilities to increase significantly over the next 10 years.

In the third quarter of 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. Four dedicated biomass-fired power plants are scheduled to commence operations in 2020. South Korea’s wood pellet demand may double by 2023 if all dedicated and co-fired biomass plants come on line.

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

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

New and Extended Off-take Agreements

On March 28, 2019, we entered into our third long-term contract with Sumitomo. Under the terms of the contract, we will supply 200,000 MTPA of industrial wood pellets starting in 2022. This contract is our seventh signed with customers in Japan since the beginning of Fiscal 2018 and we continue to advance our strategy for sales growth into Japan. Our growing contracted backlog in Japan underlines both the increasing adoption of biomass and the strength of our competitive position in this market.

During Fiscal 2018, we signed two long-term contracts totalling $1.0 billion with CGN Daesan Power Co., Ltd. (“Daesan”), a subsidiary of CGN New Energy Holdings Co., Ltd, a diversified independent power producer in Asia. These were our first contracts in South Korea with Daesan and represent an important milestone for us, as one of these contracts represents our largest contract to date in Asia and the first long-term industrial wood pellet contract to ever be signed in South Korea. These agreements attest to the country's growing commitment to decarbonization and further establish our strategic position in the Pacific Rim.

With the inclusion of new contracts entered into during Q1 2019 and Fiscal 2018, which have terms extending past 2030, we have an average of 106% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle, Smithers Facilities and incremental production from the Williams Lake and Meadowbank Facilities. As a result of new contracts totaling $3.3 billion entered into during Fiscal 2018, including one contract through our acquisition of a 70% interest in the Aliceville Facility, and a new $0.6 billion contract entered into during Q1 2019, the weighted average remaining life of our portfolio of off-take contracts with customers has been extended from less than seven years as at end of Fiscal 2017 to nine years as at end of Q1 2019. Our Contracted Backlog as at March 29, 2019 was $6.4 billion, representing an 8% increase over our Contracted Backlog as at December 28, 2018 ($5.9 billion) and a 113% increase over our Contracted Backlog as at December 29, 2017 ($3.0 billion).

We have also improved our customer diversification. During Q1 2019, our three largest customers represented 77% of total revenue. During Fiscal 2018, our three largest customers represented 75% of total revenue. During Fiscal 2017, our three largest customers represented 86% of our total revenue. We have gone from shipping to five major customers in Fiscal 2017 to eight during Fiscal 2018. As at March 29, 2019, our contracts with customers in Japan, the U.K., South Korea, and Europe represent 43%, 39%, 16% and 2%, respectively, of our Contracted Backlog.

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

OPERATIONAL UPDATE

Existing Production Facilities and Port Operations

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

Updated agreements in 2019 with our partners for the Houston production facility (the "Houston Facility") for activities including sales, marketing and distribution of wood pellets on behalf of the partnership increased the cost of wood pellets purchased from the partnership for Q1 2019 and future periods. The Houston Facility represents approximately 10% of our aggregate run-rate production volume. In exchange for increased costs, we were able to negotiate long-term extensions of the partnership agreements, ensuring security of volume through our Westview port and increased fibre security.

Our Q1 2019 operating performance was adversely affected by record and near-record cold temperatures over a sustained period of time during the quarter. Our larger Burns Lake, Entwistle, and Meadowbank Facilities were particularly impacted because of their locations and their relatively greater consumption of higher moisture content wood fibre. Fibre drying and facility heating costs increased because of greater fuel consumption of wood fibre and natural gas. These costs were further exacerbated by natural gas price increases of over 15% per gigajoule compared to Q1 2018. Total gas costs in Q1 2019 were $2.5 million, compared to $2.1 million in Q1 2018 for same facilities. The commencement of commercial production at the Smithers Facility in early Fiscal 2019 added an additional $0.6 million of gas costs in Q1 2019. These price increases were caused by low gas inventories attributed to the pipeline disruption in B.C. during the fourth quarter of Fiscal 2018, combined with higher consumer and industrial demand during the unseasonably cold period. We work with industry advisors to implement strategies including long-term contracts and hedging to actively manage the variable cost of these commodities. Dryer, labour, diesel, and other costs were higher as routine maintenance shutdowns took longer as we managed the health and safety of our teams during the extreme cold. Longer maintenance shutdowns and unplanned extended shutdowns caused by upset conditions from the cold reduced wood pellet production volumes from the Burns Lake and Meadowbank Facilities.

In response to B.C. forestry companies' current lumber market related sawmill curtailment programs, we have implemented fibre procurement mitigation strategies. We have long-term, supply contracts for fibre with major forestry companies wherein the percentage of fibre that is acquired from the processing of sawlogs into lumber (sawmill residuals) versus the fibre that is acquired as a by-product of the harvesting of timberlands to produce sawlogs (harvest residuals) shifts depending on the operating level of the sawmills. Accordingly, we received a decreased supply of sawmill residuals (bark, sawdust and shavings) and a higher proportion of more expensive harvest residuals (biologs and bush grind). The impact of the curtailments was primarily limited to some of our fibre sourcing at our Burns Lake and Meadowbank Facilities. In anticipation of the changing B.C. sawmill residual availability and our same-facility production volume increases we proactively secured long-term fibre contracts for sawmill and harvest residuals at increased prices compared to Q1 2018. During Q1 2019 we incurred fibre transition costs including equipment rentals, repairs and maintenance, labor, and production downtime as we optimized inventory storage and production flow for different residuals composition. We expect over the coming months that we will see the conversion costs per metric ton ("MT") return closer to historical levels as we realize the benefits of increased same-facility production volumes with optimized production flows. Availability of fibre at the Burns Lake Facility will continue to be a focus for our team.

Additionally, in April 2019, Tolko Industries Ltd. ("Tolko") resumed operations at its previously curtailed lumber mill in Williams Lake, B.C. The restart of the mill operation is expected to alleviate some fibre shortages in the region and reduce upward pressure on our fibre costs.

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

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

Our production facility diversity and purchasing power offers a unique proposition with wood fibre suppliers as the entire residuals basket (including sawdust, chips, bark, and harvest residues) can be acquired and optimally allocated amongst our multiple production facility locations for efficient processing. We have wood fibre supply contracts through 2021 for approximately eighty percent of our raw material needs.

With more favourable weather and the benefit of our Q1 2019 fibre transition activities in B.C., our B.C. and Alabama facilities are currently operating at or above expectations.

New and Expanded Production Facilities

Entwistle

The Entwistle Facility commenced commercial production on June 29, 2018 at capitalised costs of $95.0 million which include capitalised pre-operating commissioning costs, and capitalised borrowing costs.

On February 11, 2019, we temporarily suspended operations at our Entwistle Facility due to a fire event that occurred at the dryer area of the facility. The factors contributing to the incident are still being investigated. Progress has been made on the investigation and we anticipate providing more details in Q2 2019. The asset impairment of $9.4 million recorded in Q1 2019 as a result of the Entwistle Incident has reduced property, plant and equipment on the balance sheet. $2.2 million has been spent on asset repair expenses in Q1 2019 and capitalised to construction in progress on the balance sheet. We anticipate all expenses incurred to repair the facility and return to full run rate production to be recoverable through insurance, subject to deductibles. As of March 29, 2019, we have recognised $3.0 million of insurance proceeds (net of deductible) in accounts receivable on our balance sheet.

On March 29, 2019, we resumed operations for the production of pellets from dry fiber. The plan to restart the dryer in the fourth quarter of Fiscal 2019 has been prepared. Equipment has been ordered and the construction team has been engaged to meet the construction plan. Prior to the incident, we were successfully ramping up the Entwistle Facility. A return to late stage commissioning at the facility is anticipated to occur once the dryer area of the facility has been reconstructed. The run-rate production capacity of the facility is expected to be at the planned level of 400,000 MTPA.

Smithers

The Smithers Facility is owned 70% by Pinnacle and 30% by West Fraser through a partnership, Smithers Pellet Limited Partnership (“SPLP”), and is located in Smithers, B.C. The Smithers Facility commenced commercial production on December 29, 2018 at capitalised costs of $29.8 million to date (70% of which were attributable to us). Additional capital costs of $1.2 million were incurred in Q1 2019. The budget for the construction of the Smithers Facility is $33.0 million. Total capitalised costs include capitalised pre-operating commissioning costs, capitalised borrowing costs, and the 2017 acquisition of the land and operating infrastructure for $8.4 million. Excluding capitalised pre-operating commissioning costs and capitalised borrowing costs, the total capitalised costs of the Smithers Facility are $29.4 million as at March 29, 2019. An additional $1.4 million of capital spending is expected in 2019.

In November 2018, we commenced initial pellet production at the Smithers Facility. The majority of fibre utilized by the Smithers Facility is supplied locally by West Fraser. In early Fiscal 2019, we commenced commercial production at the Smithers Facility. The Smithers Facility has been exceeding our initial production expectations during Q1 2019 although its operating costs have also been impacted by the unseasonably cold winter. Full run-rate production of 125,000 MTPA is expected in the third quarter of Fiscal 2019.

Aliceville

The Aliceville Facility is located in Aliceville, Alabama, U.S. and operated by Westervelt Pellets I, LLC (“WPILLC”), a wholly-owned subsidiary of Pinnacle Westervelt Renewable Holdings, LLC (“PWRHLLC”). PWRHLLC is owned 70% by Pinnacle and 30% by Westervelt. The Aliceville Facility has a run-rate production capacity of approximately 270,000 MTPA, of which approximately 210,000 MTPA is committed under a long-term off-take contract to a major European utility. The remaining production volume from the Aliceville Facility will be sold through our contracted backlog of long-term, take-or-pay off-take contracts. The Aliceville Facility has been continually improving its production, seeing significant gains through Q1 2019. 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.

Safety and operational performance improvements continue to progress and production volumes have improved consistently. This has been achieved through the support of our experienced operations team who is working closely with the Aliceville Facility team for safety and operations process training, systems implementation, and asset configuration optimization to continue the operational improvements. The Aliceville Facility is well-positioned to contribute to Adjusted EBITDA in Fiscal 2019. We will commence significant planned capital improvements in Q2 2019.

Williams Lake and Meadowbank

Subject to completion of the consultation and environmental permitting processes in Q2 2019, we will commence upgrades at our Williams Lake and Meadowbank Facilities, located within the Cariboo region of B.C., with the installation of new fibre drying and air filtration equipment, as well as improvements to access infrastructure. The upgrades will allow the two facilities to process a broader array of fibre sources available in the region and achieve a series of air system safety and environmental advancements. The upgrades of the Williams Lake and Meadowbank Facilities are expected to result in an increase of 80,000 MTPA of wood pellets in our overall production capacity.

Production Capacity to Meet New and Extended Off-take Agreements

With the new long-term supply agreements contracted in Fiscal 2018 and Q1 2019, we will require additional industrial wood pellet production capacity to meet our growing customer backlog. Through our continuous improvement programs, we expect to continue to increase production capacity at our existing facilities. Additionally, under our Development Blueprint (as defined herein), once we have new, committed large-volume sales contracts, we initiate the expansion of our production capacity by advancing development of greenfield or brownfield production facilities in our funnel of new growth projects. We may also fulfill new contracted volumes through the acquisition of existing industrial wood pellet production facilities.

Once the Entwistle, Smithers, Aliceville, Williams Lake, and Meadowbank Facilities reach full run-rate production, our annual production capacity will have grown by 875,000 MTPA, an increase of 62%, from our annual run-rate production capacity at the beginning of Fiscal 2018.

FINANCIAL HIGHLIGHTS

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

Select financial highlights include the following:

(In millions)		Q1 2019 13 weeks		Q1 2018 13 weeks
Revenue	$	89.6	$	71.0
Production costs	$	66.5	$	48.5
Distribution costs	$	12.8	$	8.0
Selling, general and administration expenses	$	3.8	$	9.2
Net loss	$	(6.3)	$	(12.8)
Adjusted Gross Margin*	$	10.9	$	14.9
IFRS 16 impact	$	1.8		N/A
Entwistle Incident impact	$	(2.1)		N/A
Adjusted Gross Margin* (excl. above impact)	$	11.3	$	14.9
Adjusted Gross Margin Percentage*		12.2%		21.0%
Adjusted EBITDA*	$	8.3	$	12.0
IFRS 16 impact	$	1.8		N/A
Entwistle Incident impact	$	(2.1)		N/A
Adjusted EBITDA* (excl. above impact)	$	8.7	$	12.0
Free Cash Flow*	$	1.8	$	9.0
IFRS 16 impact	$	1.2		N/A
Entwistle Incident impact	$	(2.1)		N/A
Free Cash Flow* (excl. above impact)	$	2.7	$	9.0
(In billions)		**March 29, 2019**		**December 28, 2018**
Contracted Backlog	$	6.4	$	5.9

* See "Non-IFRS Measures".

SUMMARY OF FACTORS AFFECTING PERFORMANCE

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

Growing Global End Market

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

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

Revenues and Costs for Deliveries to Customers

We enter into long-term take-or-pay off-take contracts with reliable counterparties, matching shipping requirements with new production availability. We have an average of 106% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle, Smithers Facilities and incremental production of Williams Lake and Meadowbank. 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 a FOB contract, the customer is responsible for paying all shipping costs directly, so our revenue is not impacted by shipping costs. Under a CIF contract, we procure and pay for shipping costs which include insurance and all other charges up to the port of destination for the customer. These costs are included in the price charged to the customer and as such, are included in revenue and cost of distribution. As well, revenue is impacted by the timing of shipments which can result in material fluctuations in our revenue between periods.

New Development Projects

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

Following our Development Blueprint, we construct and commission new production facilities to support new sales contracts. We are currently gradually ramping up production at the recently constructed Smithers Facility in accordance with our Development Blueprint and will restart the ramp-up of the Entwistle Facility following the repairs required as a result of the Entwistle Incident.

In 2018, we added 795,000 MTPA of run-rate production capacity, including our Entwistle, Aliceville, and Smithers Facilities. Subject to completion of the consultation and environmental permitting processes, we will add another 80,000 MTPA of combined run-rate production capacity from capital upgrades at our Williams Lake and Meadowbank Facilities. We are actively exploring sites for new production facilities.

Production

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

- **Fibre Availability:** Our operating flexibility across our network of production facilities to process a broad range of forest residuals from logs, bush grind, bark, sawdust, shavings, and chips, enables us to optimize wood fibre supply among multiple locations for efficient processing and to meet wood pellet specifications required by our customers. In response to B.C. forestry companies' current lumber market related sawmill curtailment programs, we have implemented fibre procurement mitigation strategies. We have long-term, supply contracts for fibre with major forestry companies wherein the percentage of fibre that is acquired from the processing of sawlogs into lumber (sawmill residuals) versus the fibre that is acquired as a by-product of the harvesting of timberlands to produce sawlogs (harvest residuals) shifts depending on the operating level of the sawmills.
- **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.

- **Safety:** 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. We have been recognised in the industry for our safety initiatives. Most recently, the Manufacturing Safety Alliance of B.C. has awarded us with the distinction of "Safety Innovators" in each of the categories of occupational health and safety management, workplace culture, safety training, and workplace wellness at its 2019 awards gala.
- **Capacity Utilization:** We utilize real-time information gathering to monitor equipment performance and utilize preventative maintenance programs with regularly scheduled production shutdowns to optimize equipment uptime and production throughput. We operate to stringent environmental standards and use specialized equipment and processes to remove particles from production emissions. Real time monitoring of production facility information affords us the opportunity to respond quickly to production disruptions for any reason.

Wood Fibre and Forest Residuals

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

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

We continue to develop relationships with First Nations communities that have sustainable access to fibre and a desire to create harvesting jobs in their communities and to explore opportunities to access fibre from harvest residuals and damaged or low-grade stands.

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 had been experiencing substantial growth and resourcing challenges as well as environmental factors such as the harsh winter conditions in Q1 2018 and forest fires in the third quarter of Fiscal 2018, which have impacted our Fiscal 2018 results.

Industrial wood pellets from our Canadian production facilities are transported via rail to the Westview Terminal at the Port of Prince Rupert in Northern B.C. or the Fibreco Terminal at the Port of Vancouver. Subsequent to Q1 2019, we entered into a long-term industrial wood pellet handling agreement with the Fibreco Terminal. The availability of alternative ports for shipping helps mitigate our risk. The weather sensitivity of our cargo and occasional port congestion of ships and rail cars can delay our shipment and increase demurrage costs. Conservative shipping scheduling provides the opportunity for pulling shipments forward and reducing costs when the weather is favourable. Due to the issues experienced in Fiscal 2018 with CN's service performance, we have entered into agreements with our rail service provider on joint capital projects to enhance rail infrastructure and improve rail service standards. In addition, CN has initiated staffing and capital investment improvement programs in western Canada that resulted in improved service reliability for our operations during the fourth quarter of Fiscal 2018. On May 1, 2019, we executed an agreement for rail rates for a five-year term for our operations in Western Canada with CN. This agreement provides rate and service stability for rail transport for a significant portion of our business.

Industrial wood pellets from our recently acquired Aliceville Facility are transported by barge to the Port of Mobile, Alabama, where they are loaded directly from the barge onto ships. The weather sensitivity of barge loading operations can delay our shipment and increase demurrage costs. During the most recent period of high river waters in the U.S. Southeast, we experienced some delays in barging wood pellets to the Port of Mobile.

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 recognised 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 recognised 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.

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 Facility, our minority-owned business held in a partnership, Houston Pellet Limited Partnership ("HPLP"), with Canfor and the Moricetown Band Development Corporation.

Distribution costs include costs incurred at our wholly-owned Westview Terminal, costs paid to the Fibreco Terminal, 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.

During Q1 2019, we entered into a long-term shipping agreement to secure ocean freight rates for our shipments to South Korea.

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

Industrial wood pellets produced at the Houston Facility are sold to our customers. Our investment in the Houston Facility is accounted for on an equity basis as we own 30% of HPLP.

Non-controlling interests

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

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

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

Non-IFRS Measures

Adjusted Gross Margin Percentage

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

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

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

Adjusted EBITDA

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

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

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

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

Free Cash Flow

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

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

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

CONTRACTED BACKLOG

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

"Contracted Backlog" represents the revenue to be recognised under existing contracts assuming deliveries occur as specified in the contracts. As a result of customer preferences or logistics management, there can be movement in the timing of deliveries that may result in revenue being recognised in either a preceding or following interim fiscal period.

Our expected future industrial wood pellet sales under our Contracted Backlog as of March 29, 2019 is as follows ($ billions):

Fiscal 2019	$ 0.4
Fiscal 2020	0.5
Fiscal 2021 and thereafter	5.5
Total product sales under Contracted Backlog	**$ 6.4**

FACTORS IMPACTING COMPARABILITY OF OUR FINANCIAL RESULTS

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

The Entwistle Incident

As of March 29, 2019, we have recognised an impairment charge of $9.4 million for assets impaired in the incident which has reduced property, plant and equipment and lowered net income for the period. The net income impact has been partially offset by an initial $3.0 million of insurance proceeds (net of deductibles) recorded in net income and in accounts receivable on the balance sheet as we expect to receive this amount in May 2019, which will positively impact free cash flow in Q2 2019.

Total capital costs and other expenses required to replace the dryer and restore the Entwistle Facility to the planned operating rate are estimated to be in the range of $21.0 million to $25.0 million. The capital asset portion of this is estimated to be $13.0 million to $15.0 million, of which $2.2 million was reflected in construction in progress in property, plant and equipment as at March 29, 2019. The remaining costs are estimated to be in the range of $8 million to $10 million, which relates to fixed overhead and incident response costs, of which $2.1 million was reflected in production costs in Q1 2019 and the remaining amount will be incurred through to the end of Fiscal 2019 as we return the Entwistle Facility to its pre incident commissioning curve.

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

Implementation of IFRS 16

Beginning in Fiscal 2019, we adopted IFRS 16. IFRS 16 was issued in January 2016 by the IASB as a replacement for IAS 17 and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

We have elected to apply the modified retrospective approach upon adoption at December 29, 2018, measuring the right-of-use asset at an amount equal to the lease liability. The short-term and low-value recognition exemptions available under the standard were utilized, along with certain practical expedients. Accordingly, the comparative information presented for Fiscal 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed in Note 1 to the Consolidated Financial Statements.

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

(in thousands)		Q1 2019 Actual	Q1 2018 Actual
IFRS 16 - Adjusted EBITDA impact			
Adjusted EBITDA	**$**	**8,305**	**11,957**
Deduct: Lease Payment Expense*		(1,799)	-
Adjusted EBITDA (excl. IFRS 16)		**6,506**	**11,957**
IFRS 16 - Net profit (loss) impact			
Net loss		**(6,269)**	**(12,774)**
Deduct: Lease Payment Expense*		(1,799)	-
Add: ROU Asset Depreciation*		1,489	-
Add: Interest on Lease Liabilities*		561	-
Net profit (loss) impact		251	-
Net profit (loss) impact (tax-effected at 27%)		183	-
Net profit (loss) (excl. IFRS 16)	**$**	**(6,086)**	**(12,774)**

* Adjusted for non-controlling interests.

When measuring lease liabilities for leases that were classified as operating leases, we discounted lease payments using our incremental borrowing rate at December 29, 2018. The rate applied ranged between 6.280% to 6.591% based on different characteristics of each of the leased assets.

(in thousands)	December 29, 2018
Operating lease commitment at December 28, 2018	$ 65,748
Recognition exemptions for variable lease payments	(14,413)
Recognition exemptions for service fees	(1,781)
Recognition exemptions for short-term and low-value leases	(1,463)
Discount using incremental borrowing rate at December 29, 2018	(11,288)
Discounted operating lease commitment under IFRS 16 using incremental borrowing rate at December 29, 2018	**$ 36,803**

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

Also in relation to those leases under IFRS 16, we have recognised depreciation and interest costs, instead of operating lease expense. During Q1 2019, we recognised $1.7 million of depreciation charges and $0.6 million of interest costs from these leases.

As a result of applying IFRS 16, Adjusted Gross Margin and Adjusted EBITDA for Q1 2019 have increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Also in relation to applying IFRS 16, Free Cash Flow for Q1 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17, partially offset by a decrease of $0.6 million related to interest costs (increase in net interest and finance costs includes interest payment expense on capital leases under IFRS 16 of $0.6 million).

IPO and capital structure

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

RESULTS OF OPERATIONS

Analysis of Results for Q1 2019 to Q1 2018

The following section provides an overview of our financial performance in Q1 2019 compared to Q1 2018.

(In thousands)		Q1 2019 13 weeks		Q1 2018 13 weeks		Q1 2019 vs. Q1 2018
MT of industrial wood pellets sold		**402**		**328**		**74**
Revenue	**$**	**89,627**	**$**	**71,022**	**$**	**18,605**
Costs and expenses						
Production		66,535		48,520		18,015
Distribution		12,766		8,030		4,736
Selling, general and administration		3,793		9,217		(5,424)
Amortization		9,583		5,358		4,225
		92,677		**71,125**		**21,552**
Loss before finance costs and other income (expense)		**(3,050)**		**(103)**		**(2,947)**
Finance cost		(6,409)		(382)		(6,027)
Other income (expense)		806		(17,983)		18,789
		(5,603)		**(18,365)**		**12,762**
Net loss before income taxes		**(8,653)**		**(18,468)**		**9,815**
Income tax recovery (expense)						
Current		-		-		-
Deferred		2,384		5,694		(3,310)
Income Taxes		2,384		5,694		(3,310)
Net loss	**$**	**(6,269)**	**$**	**(12,774)**	**$**	**6,505**
Impact of:						
IFRS 16*		(183)		N/A		(183)
Entwistle Incident*		(6,250)		N/A		(6,250)
Net profit (loss) (excluding above impact)	**$**	**164**	**$**	**(12,774)**	**$**	**12,938**

* Tax-effected at 27%.

Revenue

Revenue for Q1 2019 totaled $89.6 million, an increase of $18.6 million, or 26.2%, compared to $71.0 million for Q1 2018. This increase was primarily attributable to higher sales volume as we produced and sold pellets from the Entwistle and Aliceville Facilities in Q1 2019 whereas there were no sales from these facilities in Q1 2018, and a higher proportion of CIF sales in Q1 2019.

Production cost

Production costs were $66.5 million for Q1 2019, an increase of $18.0 million compared to $48.5 million for Q1 2018. The increase was primarily due to higher fibre costs, higher cash conversion costs, and increased costs incurred for third party wood pellet purchases. The incremental costs incurred in Q1 2019 for the purchase of third party pellets are not expected to continue in 2019.

Production costs include $2.1 million of costs associated with the Entwistle Incident, primarily consisting of costs related to incident response, plant operating costs, and fixed expenses incurred to maintain the Entwistle Facility.

As discussed above, higher fibre costs were primarily related to a shift in fibre mix due to a reduction in sawmill residuals during Q1 2019 and higher conversion costs were driven by higher costs due to unseasonably cold winter weather.

Distribution cost

Distribution costs were $12.8 million for Q1 2019, an increase of $4.8 million compared to $8.0 million for Q1 2018, reflecting higher volumes shipped and a higher proportion of CIF sales in Q1 2019.

Selling, general and administration expense

SG&A expenses were $3.8 million for Q1 2019, a decrease of $5.4 million compared to $9.2 million for Q1 2018. The decrease was attributable to: a $4.0 million decrease in stock-based compensation expense, a $1.3 million decrease in professional fees incurred in connection with the IPO in Q1 2018, and a $0.3 million decrease in legal fees incurred on a damage claim we were pursuing against one of our equipment suppliers. The decrease was partially offset by inflationary increases in salary and wages. The decrease in stock-based compensation expense is due to the IPO transaction and vested restricted share units issued at the IPO date.

Amortization expense

Amortization expense was $9.6 million for Q1 2019, an increase of $4.2 million compared to $5.4 million for Q1 2018. The increase was primarily attributable to the commencement of amortization for property, plant and equipment related to: the start-up of commercial production at the Entwistle Facility at the end of the second quarter of Fiscal 2018, the Aliceville Facility since acquisition in the third quarter of Fiscal 2018, and the commencement of commercial production at the Smithers Facility during Q1 2019. In addition, the implementation of IFRS 16 in Q1 2019 resulted in an additional $1.5 million of depreciation expenses related to the recognition of right-of-use assets.

Finance cost

Finance cost was $6.4 million for Q1 2019, an increase of $6.0 million compared to $0.4 million for Q1 2018. This change was primarily due to: a $3.8 million fluctuation in the fair value of foreign exchange derivative contracts (a $1.9 million fair value loss was recognised in Q1 2019, compared with a $1.9 million fair value gain recognised in Q1 2018), a $2.1 million increase in interest on our credit facilities (reflecting increased draw on credit facilities to fund production capacity growth and significant investment in the Entwistle, Aliceville, and Smithers Facilities), and a $0.6 million increase in other finance costs primarily related to interest on lease payments from the implementation of IFRS 16, partially offset by a $0.5 million fluctuation in realised gain on foreign exchange derivative contracts.

Other income (expense)

Other income was $0.8 million for Q1 2019, compared to other expense of $18.0 million for Q1 2018. Other expense of $18.0 million for Q1 2018 was primarily due to the transactions in connection with the IPO. Other income of $0.8 million for Q1 2019 was primarily due to a $6.5 million gain on the settlement of a legal claim against a former equipment supplier, a $3.0 million gain on insurance recovery related to the Entwistle Incident, and $0.7 million of other miscellaneous income, offset by a $9.4 million impairment of property, plant and equipment related to the Entwistle Incident.

The settlement of the longstanding damage claim we pursued against one of our former equipment suppliers resulted in net cash proceeds of approximately $6.5 million in our favour during Q1 2019. We do not expect to incur additional legal costs related to this legal claim.

Income taxes

Income tax recovery was $2.4 million for Q1 2019, a decrease of $3.3 million compared to an income tax recovery of $5.7 million for Q1 2018, primarily attributable to a decrease in net loss before taxes. The income tax recovery for Q1 2018 was primarily related to the loss on conversion of shareholders' debentures upon closing of the IPO.

Net loss

Net loss was $6.3 million in Q1 2019, a decrease of $6.5 million compared to $12.8 million in Q1 2018. The change in net loss is due to the factors discussed above. Excluding the impact of the Entwistle Incident and of the adoption of IFRS 16, net profit in Q1 2019 was $0.2 million.

Other comprehensive loss

Other comprehensive loss for Q1 2019 of $0.5 million was due to the loss on translation of the Aliceville Facility as the U.S. dollar weakened compared to the Canadian dollar from the end of Fiscal 2018 to the end of Q1 2019.

Adjusted Gross Margin Percentage*

(In thousands except per MT amounts)	Q1 2019 13 weeks		Q1 2018 13 weeks		Q1 2019 vs. Q1 2018	
Loss before finance costs and other income (expenses)	**$**	**(3,050)**	**$**	**(103)**	**$**	**(2,947)**
Selling, general and administration		3,793		9,217		(5,424)
Amortization		9,583		5,358		4,225
Equity earnings in HPLP		312		296		16
Non-controlling interests		277		141		136
Adjusted Gross Margin	**$**	**10,915**	**$**	**14,909**	**$**	**(3,994)**
Adjusted Gross Margin per MT**	**$**	**27.14**	**$**	**45.45**	**$**	**(18.32)**
Adjusted Gross Margin Percentage		**12.2%**		**21.0%**		**(8.8%)**
Impact of:						
IFRS 16		1,799		N/A		1,799
Entwistle Incident		(2,145)		N/A		(2,145)
Adjusted Gross Margin (excluding above impact)	**$**	**11,261**	**$**	**14,909**	**$**	**(3,648)**

* See "Non-IFRS Measures".

Adjusted Gross Margin was $10.9 million and Adjusted Gross Margin Percentage was 12.2% for Q1 2019 ($27.14/MT), compared to 21.0% in Q1 2018 ($45.45/MT). The decrease was primarily due to higher production costs associated with the Entwistle Incident, higher fibre costs, higher conversion costs due to colder weather and wetter fibre, and increased third party pellet purchases, partially offset by higher revenue from higher sales volume as discussed above and the impact of IFRS 16.

$2.1 million of the decrease in Adjusted Gross Margin was due to costs associated with the Entwistle Incident, primarily consisting of costs related to incident response, plant operating costs, and fixed expenses incurred to maintain the Entwistle Facility without generating revenue. Excluding the costs associated with the Entwistle Incident, Adjusted Gross Margin was $13.0 million, or $32.49/MT, in Q1 2019.

As a result of applying IFRS 16, Adjusted Gross Margin for Q1 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Excluding the impact of IFRS 16, Adjusted Gross Margin in Q1 2019 was $9.1 million.

Excluding the impact of the Entwistle Incident and of applying IFRS 16, Adjusted Gross Margin in Q1 2019 was $11.3 million.

Adjusted EBITDA*

(In thousands except per MT amounts)	Q1 2019 13 weeks	Q1 2018 13 weeks	Q1 2019 vs. Q1 2018
MT of industrial wood pellets sold	**402**	**328**	**74**
Net loss	**$ (6,269)**	**$ (12,774)**	**$ 6,505**
Income tax recovery	2,384	5,694	(3,310)
Finance costs [(1)]	(6,986)	(484)	(6,502)
Amortization of equipment and intangible assets [(2)]	(9,091)	(5,243)	(3,848)
EBITDA	**$ 7,424**	**$ (12,741)**	**$ 20,165**
EBITDA Adjustments			
Stock-based compensation expense	168	4,203	(4,035)
Loss on disposal and impairment of PP&E [(3)]	9,725	141	9,584
Insurance recovery on Entwistle Incident	(3,000)	-	(3,000)
Gain on settlement of legal claim	(6,463)	-	(6,463)
Plant curtailment costs	-	47	(47)
Loss on conversion of shareholder debentures	-	21,881	(21,881)
Revaluation of Class B and Class D common shares	-	(3,563)	3,563
Other items [(4)]	451	1,989	(1,538)
Total Adjustments	**881**	**24,698**	**(23,817)**
Adjusted EBITDA	**$ 8,305**	**$ 11,957**	**$ (3,652)**
Adjusted EBITDA per MT**	**$ 20.65**	**$ 36.45**	**$ (15.81)**
Impact of:			
IFRS 16	1,799	N/A	1,799
Entwistle Incident	(2,145)	N/A	(2,145)
Adjusted EBITDA (excluding above impact)	**$ 8,651**	**$ 11,957**	**$ (3,306)**

* See "Non-IFRS Measures".

Notes:

(1) Finance costs exclude 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, SPLP, and PWRHLLC.
(3) Loss on disposal and impairment 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 in Q1 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP, SPLP, and PWRHLLC.

Adjusted EBITDA for Q1 2019 was $8.3 million, a decrease of $3.6 million from $11.9 million in Q1 2018. Increased revenue was offset by higher production costs, including fibre and conversion costs due principally to colder weather and wetter fibre, and costs associated with the Entwistle Incident as discussed above, partially offset by the impact of IFRS 16.

Following the Entwistle Incident, $11.6 million of expenses were incurred due to the Entwistle Incident, comprised of $9.4 million related to asset impairment and $2.1 million related to incident response, plant operating, and production costs. We have also recognized an initial $3.0 million of insurance proceeds receivable (net of deductibles) that partially offsets the impairment charge. Asset impairment costs of $9.4 million and the insurance proceeds receivable of $3.0 million have been removed from Adjusted EBITDA. Excluding the $2.1 million costs associated with the Entwistle Incident related to fixed overhead and incident response costs, Adjusted EBITDA was $10.5 million, or $26.00/MT, during Q1 2019.

As a result of applying IFRS 16, Adjusted EBITDA for Q1 2019 increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17. Excluding the impact of IFRS 16, Adjusted EBITDA in Q1 2019 was $6.5 million.

Excluding the impact of the Entwistle Incident and of applying IFRS 16, Adjusted EBITDA in Q1 2019 was $8.7 million.

During Q1 2019, we reached a settlement on a longstanding damage claim against one of our equipment suppliers. Legal costs associated with this claim, and net proceeds received from the settlement of $6.5 million, have been included in adjustments to EBITDA.

Free Cash Flow*

(In thousands)	Q1 2019 13 weeks	Q1 2018 13 weeks	Q1 2019 vs. Q1 2018
Net loss	**$ (6,269)**	**$ (12,774)**	**$ 6,505**
Income tax recovery	2,384	5,694	(3,310)
Finance costs (1)	(6,986)	(484)	(6,502)
Amortization of equipment and intangible assets (2)	(9,091)	(5,243)	(3,848)
EBITDA	**$ 7,424**	**$ (12,741)**	**$ 20,165**
Stock-based compensation expense	168	4,203	(4,035)
Loss on disposal and impairment of PP&E (3)	9,725	141	9,584
Insurance recovery on Entwistle Incident	(3,000)	-	(3,000)
Gain on settlement of legal claim	(6,463)	-	(6,463)
Plant curtailment costs	-	47	(47)
Loss on conversion of shareholder debentures	-	21,881	(21,881)
Revaluation of Class B and Class D shares	-	(3,563)	3,563
Other items (4)	451	1,989	(1,538)
Adjusted EBITDA (5)	**$ 8,305**	**$ 11,957**	**$ (3,652)**
Maintenance capital expenditures (6)	(430)	(1,038)	608
Interest and finance costs, net (7)	(4,037)	(1,916)	(2,121)
Cash taxes paid (8)	-	-	-
Mandatory amortization (9)	(2,000)	-	(2,000)
Free Cash Flow	**$ 1,838**	**$ 9,003**	**$ (7,165)**
Impact of:			
IFRS 16	1,238	N/A	1,238
Entwistle Incident	(2,145)	N/A	(2,145)
Free Cash Flow (excluding above impact)	**$ 2,745**	**$ 9,003**	**$ (6,258)**

* See "Non-IFRS Measures".

Notes:

(1) Finance costs exclude 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, SPLP, and PWRHLLC.

(3) Loss on disposal and impairment 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 in Q1 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest's share of LPLP, SPLP, and PWRHLLC.

(5) See definition of Adjusted EBITDA in the section entitled "Key Performance Indicators" and reconciliation of Adjusted EBITDA to net income in "Results of Operations".

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

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

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

(9) Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free Cash Flow for Q1 2019 was $1.8 million, a decrease of $7.2 million from $9.0 million in Q1 2018. The decrease is primarily due to a decrease of $3.6 million in Adjusted EBITDA, an increase of $2.1 million in net interest and finance costs, an increase of $2.0 million in mandatory amortization of term debt, offset by a decrease of $0.6 million in maintenance capital expenditures.

The Entwistle Incident resulted in a $2.1 million impact to Free Cash Flow.

As a result of applying IFRS 16, Free Cash Flow for Q1 2019 has increased by $1.8 million related to lease payment expenses that were previously classified as operating leases under IAS 17, partially offset by a decrease of $0.6 million related to interest costs (increase in net interest and finance costs includes interest payment expense on capital leases under IFRS 16 of $0.6 million).

Excluding the impact of the Entwistle Incident and of applying IFRS 16, Free Cash Flow in Q1 2019 was $2.7 million.

SUMMARY OF CONSOLIDATED RESULTS AND CERTAIN PERFORMANCE MEASURES

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

	2019	2018				2017		
(In thousands except per share amounts)	**Q1 13 Weeks**	**Q4 13 Weeks**	**Q3 13 Weeks**	**Q2 13 Weeks**	**Q1 13 Weeks**	**Q4 13 Weeks**	**Q3 13 Weeks**	**Q2 13 Weeks**
MT of industrial wood pellets sold	**402**	**473**	**421**	**385**	**328**	**334**	**387**	**332**
Revenue	$89,627	$103,728	$87,606	$85,084	$71,022	$72,958	$82,366	$69,556
Costs and expenses								
Production [2]	66,535	73,472	57,222	53,893	48,520	47,377	51,628	44,863
Distribution	12,766	13,371	12,360	13,138	8,030	9,925	11,568	7,868
Selling, general and administration	3,793	3,933	5,374	4,265	9,217	4,347	4,222	3,493
Amortization	9,583	7,220	6,719	5,381	5,358	5,280	5,365	5,570
	92,677	97,996	81,675	76,677	71,125	66,929	72,783	61,794
Profit (loss) before finance costs and other (income) expenses	(3,050)	5,732	5,931	8,407	(103)	6,029	9,583	7,762
Finance income (cost)	(6,409)	1,741	(4,360)	(41)	(382)	(6,120)	(6,469)	(5,835)
Other income (expense) [3][4]	806	1,626	399	320	(17,983)	358	(9,146)	(131)
	(5,603)	3,367	(3,961)	279	(18,365)	(5,762)	(15,615)	(5,966)
Net profit (loss) before income taxes	(8,653)	9,099	1,970	8,686	(18,468)	267	(6,032)	1,796
Income tax recovery (expense)								
Current	-	-	-	-	-	-	-	-
Deferred	2,384	1,643	454	(2,182)	5,694	(163)	2	(469)
Income Taxes	2,384	1,643	454	(2,182)	5,694	(163)	2	(469)
Net profit (loss)	$(6,269)	$7,456	$1,516	$6,504	$(12,774)	$104	$(6,030)	$1,327
Net profit (loss) attributable to:								
Owners of the Company	(5,992)	7,081	1,184	6,218	(12,633)	124	(6,371)	1,234
Non-controlling interests	(277)	375	332	286	(141)	(20)	341	93
Net profit (loss)	$(6,269)	$7,456	$1,516	$6,504	$(12,774)	$104	$(6,030)	$1,327
Net profit (loss) attributable to owners								
Net profit (loss) attributable to owners	(5,992)	7,081	1,184	6,218	(12,633)	124	(6,371)	1,234
Cumulative preferred dividends	-	-	-	-	(104)	(409)	(309)	(309)
	$(5,992)	$7,081	$1,184	$6,218	$(12,737)	$(285)	$(6,680)	$925
Net profit (loss) per share attributable to owners								
Basic and diluted	$(0.18)	$0.22	$0.04	$0.19	$(0.58)	$(0.04)	$(0.97)	$0.13

Notes:

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

(2) In Q1 2019, $2.1 million of incident response costs and fixed overhead cost was recognised in relation to the Entwistle Incident.

(3) Class B and Class D common shares, which are classified as liabilities are subject to fair value adjustments. In the third quarter of Fiscal 2017, a revaluation loss of $6.0 million (before-tax) was recognised. Upon closing of the IPO in Q1 2018, a gain of $3.6 million (before-tax) was recognised on conversion of Class B and Class D common shares. In Q1 2019, $9.4 million of asset impairment costs and $3.0 million of insurance recoveries were recognised in relation to the Entwistle Incident.

(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 at over $10 million. Shipment timing impacts accounts receivable and finished industrial wood pellet inventories. Payment terms differ for each contract, but we typically receive an initial payment equal to 90% of the total value of a shipment 12 to 15 days after the shipment leaves the port, with the balance received after the vessel fully discharges its cargo to the customer. Less significantly, non-cash working capital is impacted by wood fibre inventory changes due to the accumulation of wood fibre in winter months and increases in whole log volumes and values as we diversify our wood fibre sources and create supply stock piles.

Senior Credit Facilities

As at March 29, 2019, 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 period ended March 29, 2019 we made scheduled repayments of $2 million on our term loan (13-week period ended March 30, 2018 – $nil). At March 29, 2019, the $192 million term loan was in a Canadian dollar BA loan at 5.31% and the $16.5 million revolver was in a Canadian dollar BA loan at 5.95% and the $49.8 million delayed draw was in in a USD BA loan at 8.00%. At December 28, 2018, the $194 million term loan was in a Canadian dollar BA loan at 5.03% and the $18.5 million revolver was in a Canadian dollar BA loan at 5.70% and the $50.5 million delayed draw was in a USD BA loan at 8.00%. Subsequent to Q1 2019 on April 13, 2019, we amended certain terms of our delayed draw which resulted in a change in rate basis from USD BA to USD LIBOR and a corresponding lower interest rate of 5.97% as at May 8, 2019. At March 29, 2019, we had issued letters of credit totaling $1.4 million (December 29, 2017 - $1.4 million). The delayed draw has been designated as a hedge against the investment in our U.S. operations and unrealized foreign exchange losses of $0.5 million arising on its revaluation were recognised in foreign currency translation differences in other comprehensive income for the 13-week period ended March 29, 2019 (13-week period ended March 30, 2018 - $nil).

EBITDA and Adjusted EBITDA are defined in our credit agreement and used in the calculation of debt covenants and interest rate margins. Adjusted EBITDA as defined in our credit agreement is different than Adjusted EBITDA as presented in our MD&A as it includes adjustments to reflect run-rate EBITDA at facilities in the commissioning phase including Entwistle and Smithers Facilities, among other adjustments. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The NMTC Debt is not included in the calculation of Total Funded Debt (as defined in the credit agreement) as it is indemnified by Westervelt and the we carry a NMTC Receivable from Westervelt of an equal amount. Our credit agreement provides for calculation of the debt covenants prior to the application of IFRS 16. As at March 29, 2019 and December 28, 2018, the Company was in compliance with all debt covenants.

The debt is secured by a first-ranking security interest on all present and after-acquired assets of the Company.

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

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

CASH FLOWS

Analysis of cash flows for Q1 2019 compared to Q1 2018

(In thousands)	**Q1 2019 13 weeks**	**Q1 2018 13 weeks**	**Q1 2019 vs. Q1 2018**
Cash flow from operations before net change in non-cash working capital	$ 17,132	$ 9,490	$ 7,642
Net change in non-cash operating working capital	(6,878)	17,899	(24,777)
Financing activities	(13,604)	13,564	(27,168)
Investing activities	(6,261)	(27,437)	21,176
Other	93	101	(8)
Change in cash	**(9,518)**	**13,617**	**(23,135)**
Cash at beginning of period	18,028	18,908	(880)
Cash at end of period	**$ 8,510**	**$ 32,525**	**$ (24,015)**

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

Cash flow from operations before net change in non-cash working capital increased by $7.6 million to $17.1 million for Q1 2019 from $9.5 million for Q1 2018, primarily due to higher revenue in Q1 2019 compared to Q1 2018, cash received from a legal settlement, and distributions from HPLP.

Net change in non-cash working capital

The $6.9 million decrease in cash flows from non-cash working capital in Q1 2019 was primarily comprised of a $7.4 million decrease in accounts payable and accrued liabilities, a $6.4 million increase in inventory as we ensure sufficient fibre based on sawmill curtailment, and a $4.1 million increase in other current assets, partially offset by a $11.2 million decrease in accounts receivable. The $17.9 million increase in cash flows from non-cash working capital in Q1 2018 was primarily comprised of a $18.1 million decrease in accounts receivable, a $7.3 million increase in accounts payable and accrued liabilities, and a $1.7 million decrease in inventory, partially offset by a $9.8 million decrease in other current liabilities.

Financing activities

In Q1 2019, financing activities used $13.6 million of cash, primarily from $5.0 million in dividends paid, $4.0 million in net credit facilities repaid, $3.6 million in finance costs paid, and $2.3 million in payment of finance leases, partially offset by $1.1 million in net investment from non-controlling interest. In Q1 2018, financing activities provided $13.6 million, primarily from net proceeds of the IPO after repaying third party debt and shareholder debentures.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. $6.3 million of cash used for property, plant and equipment during Q1 2019 includes approximately $2.2 million associated with the rebuilding of the dryer at our Entwistle Facility. The costs related to asset repairs at the Entwistle Facility have been capitalised to construction in progress for Q1 2019. As of March 29, 2019, we have recognised $3.0 million of insurance proceeds (net of deductible) in accounts receivable. We expect to receive the $3.0 million payment from our insurers in May 2019, resulting in a positive impact to free cash flow for Q2 2019. In Q1 2018, cash used for property, plant and equipment was $27.5 million, primarily related to the construction of the Entwistle Facility.

OUTLOOK

We believe that we have an opportunity to continue growing our revenue and profitability over the next several years as a result of 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 and joint ventures to grow our production platform.

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

- continue to realize production and operating efficiencies in our existing production facilities to increase EBITDA per MT;
- grow our business through the commissioning and operational execution of the Entwistle Facility and Smithers Facility, and other greenfield and brownfield project opportunities throughout North America;
- expand production capacity at existing production facilities, including that of the recently acquired Aliceville Facility as well as facility upgrades at the Williams Lake and Meadowbank Facilities;
- make potential accretive acquisitions of industrial wood pellet producers in Canada or the U.S.; and
- continue to 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 the region.

We expect to achieve strong execution in our strategic growth plan in 2019. Our Aliceville and Smithers Facilities will contribute to 2019 production growth as they ramp up operations.

The financial outlook of the Entwistle Facility is difficult to estimate at this time. As further information is obtained regarding the timeline for recommencement of the dryer area, including the amount of insurance recoveries we are entitled to, we will be in a better position to provide an update on our outlook for 2019. Although we expect to recommence operation of the dryer in Q4 2019, the Facility is not expected to provide a meaningful contribution in that quarter. We remain confident that the Entwistle Facility will generate $19 million to $21 million in annual EBITDA when it achieves run-rate production.

While production and revenue growth are expected to be substantial in 2019, we anticipate margin compression as a result of sawmill curtailment programs in B.C, our renewed agreements for our joint venture Houston Facility, the realization of full-year public company costs and full-year costs for our investments in late Fiscal 2018, as well as the lower contribution margin for Aliceville and Smithers facilities during their ramp up in 2019. Excluding all forecast contribution from the Entwistle Facility for 2019, as well as any incremental costs or insurance recoveries relating to the Entwistle Incident, we expect to achieve Adjusted EBITDA of $54 million to $58 million for Fiscal 2019 (excluding the impact of the implementation of IFRS 16).

The following table outlines our guidance for Adjusted EBITDA, excluding the Entwistle Facility:

Measure	**Target (millions)**
Adjusted EBITDA (incl. IFRS 16)	$62 - $66
Adjusted EBITDA (excl. IFRS 16)	$54 - $58

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There were no material changes in Q1 2019 in the contractual obligations, off-balance sheet arrangements or commitments specified in our Fiscal 2018 audited consolidated financial statements and related MD&A.

FINANCIAL RISK FACTORS

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

Credit risk

Credit risk is the risk of financial loss to us if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that are subject to credit risk include cash and accounts receivable. We manage our credit risk on cash by using major Canadian chartered banks for all cash deposits. The cash balance at March 29, 2019 was $8.5 million (December 28, 2018 - $18.0 million).

We manage our credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over $5.0 million. The significant majority of our sales are contracted with large utility customers. The accounts receivable balance at March 29, 2019 was $32.0 million (December 28, 2018 - $43.0 million).

Liquidity risk

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

At March 29, 2019, we had available liquidity of $40.0 million (December 28, 2018 - $49.1 million) from our debt facilities (excluding delayed draw) and cash balances and forecast sufficient liquidity throughout Fiscal 2019. We expect to finance our operations and cash flows from our current available resources without further support from our shareholders and lenders. However, to the extent that additional cash resources are required due to unforeseen circumstances, we anticipate support from our shareholders and lenders, although there can be no guarantees. At March 29, 2019, our ratio of net debt to last twelve month Adjusted EBITDA was 4.87 times. This ratio was impacted because of the investment in the Aliceville Facility in Q4 2018 and in significant new capacity at the Entwistle and Smithers Facilities in advance of achieving run-rate Adjusted EBITDA. As these facilities reach their run-rate capacity, we expect these ratios to come back in line.

Market risk

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

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

Foreign currency

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

These contracts are simultaneously settled on a gross tax basis as the Company exchanges US dollars into Canadian dollars at predetermined rates. We do not apply hedge accounting to our US dollar forward contracts. Refer to Note 17 to the Consolidated Financial Statements for outstanding notional amounts of the US dollar forward contracts and their contractual maturities.

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

Interest rate

We are exposed to interest rate risk through our credit facility including our revolver, term loan and delayed draw term loan which are subject to variable lending rates. As at March 29, 2019, 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 from Fiscal 2018.

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 recognised that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control Over Financial Reporting

There were no changes to our disclosure controls and procedures and internal control over financial reporting during Q1 2019.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

Critical Accounting Estimates and Judgments

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

The most significant accounting judgments and estimates that we have made in the preparation of the Consolidated Financial Statements are consistent with that as described in our Fiscal 2018 consolidated financial statements and MD&A.

Significant Accounting Standards Adopted and Issued And Effective in Q1 2019

IFRS 16

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

IFRS 16 may be applied retrospectively to each prior period presented (full retrospective approach), or with the cumulative effect of adoption recognised at initial application (modified retrospective approach). The modified retrospective method offers the option, on a lease by lease basis, to either measure the right of use asset retrospectively using the discount rate as at the date of initial application, or to measure the right of use asset at an amount equal to the lease liability. We have elected to apply the modified retrospective approach upon adoption at December 29, 2018, measuring the right of use asset at an amount equal to the lease liability. The short-term and low-value recognition exemptions available under the standard will be utilized, along with certain practical expedients.

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

Also in relation to those leases under IFRS 16, we have recognised depreciation and interest costs, instead of operating lease expense. During Q1 2019, we recognised $1.7 million of depreciation charges and $0.6 million of interest costs from these leases.

RELATED PARTY TRANSACTIONS

HPLP transactions

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

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

LPLP transactions

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

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

SPLP transactions

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

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

PWRHLLC transactions

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

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

Significant shareholder

Based on information provided by ONCAP, as at March 29, 2019, ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31.3% of the issued and outstanding common shares of the Company. ONCAP is ultimately controlled by Onex Corporation.

See Note 16 to the Consolidated Financial Statements for additional details on related party transactions.

SHARE CAPITAL

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

Current Share Information

As of May 8, 2019, we had 33,300,091 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of May 8, 2019, an aggregate of 2,132,455 options to acquire Common Shares and 12,864 restricted share units representing the right to Common Shares are outstanding.

SUBSEQUENT EVENTS

On March 29, 2019 we resumed operations at the Entwistle Facility at reduced levels with the production of pellets from dry fibre. A plan to safely restart the dryer in the fourth quarter of Fiscal 2019 has been prepared. As of May 8, 2019, we are running at one-third of production capacity at the Entwistle Facility with dry fibre.

On April 1, 2019, we executed an agreement for long-term industrial wood pellet handling with the Fibreco Terminal.

On May 1, 2019, we executed an agreement for rail rates for a five-year term for our operations in Western Canada with CN. This agreement provides rate and service stability for rail transport for a significant portion of our business.

On May 8, 2019, we declared a cash dividend of $0.15 per Common Share to shareholders of record as at May 17, 2019, to be paid on May 28, 2019.

In Q2 2019, we will commence upgrades at our Williams Lake and Meadowbank Facilities, located within the Cariboo region of B.C., with the installation of new fibre drying and air filtration equipment, as well as improvements to access infrastructure, subject to completion of the consultation and environmental permitting processes.

Additional Information

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