First Quarter of Fiscal 2019

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

Interim Condensed Consolidated Financial Statements

Pinnacle.
RENEWABLE ENERGY INC.

PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

As at	Note	March 29, 2019	December 28, 2018
Assets			
Current assets			
Cash and cash equivalents		$ **8,510**	$ 18,028
Accounts receivable	2	**35,041**	43,017
Inventory	3	**30,591**	24,531
Other current assets		**9,221**	5,846
		83,363	91,422
Property, plant and equipment	4	**358,810**	330,899
Investment in Houston Pellet Limited Partnership	5	**7,286**	9,374
Receivable against NMTC debt	7	**83,727**	84,877
Other long-term assets		**1,339**	2,500
Deferred income taxes	13	**2,531**	149
Goodwill and intangible assets		**106,927**	108,073
Total assets		$ **643,983**	$ 627,294
Liabilities and Shareholders' Equity			
Current liabilities			
Revolver loan	6	$ **16,500**	$ 18,450
Accounts payable and accrued liabilities		**40,426**	43,537
Current portion of long-term debt	6	**10,000**	9,500
Current portion of NMTC debt	7	**1,494**	1,515
Other current liabilities		**6,508**	3,642
		74,928	76,644
Long-term debt	6	**229,396**	232,425
NMTC debt	7	**83,727**	84,877
Other long-term liabilities	8	**34,293**	4,335
		422,344	398,281
Shareholders' Equity			
Common shares	9	**277,263**	273,966
Contributed surplus		**3,556**	3,556
Accumulated Other Comprehensive Income (loss)		**(501)**	-
Deficit		**(97,380)**	(86,437)
Total equity attributable to owners of the Company		**182,938**	191,085
Non-controlling interest	10	**38,701**	37,928
Total equity		**221,639**	229,013
Total liabilities and shareholders' equity		$ **643,983**	$ 627,294

Contingencies (note 18)

Subsequent events (note 22)

See accompanying notes to the interim condensed consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin	*s/Hugh MacDiarmid*
Director, Gregory Baylin	Director, Hugh MacDiarmid

PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Profit (Loss)
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Note	13-week periods ended March 29, 2019	March 30, 2018
Revenue	20	**$ 89,627**	$ 71,022
Costs and expenses			
Production		**66,535**	48,520
Distribution		**12,766**	8,030
Selling, general and administration		**3,793**	9,217
Amortization of equipment, ROU assets, and intangible assets		**9,583**	5,358
		92,677	71,125
Loss before undernoted items		**(3,050)**	(103)
Equity earnings in Houston Pellet Limited Partnership	5	**312**	296
Loss on disposal of property, plant and equipment		**(30)**	(141)
Gain on conversion of class B&D common shares		**-**	3,563
Loss on conversion of debentures into shares		**-**	(21,881)
Impairment of Entwistle plant	4	**(9,417)**	-
Insurance recovery for property loss at Entwistle plant	2	**3,000**	-
Impairment of intangible assets		**(278)**	-
Finance costs	12	**(6,409)**	(382)
Other income	21	**7,219**	227
Plant impairment loss and curtailment costs		**-**	(47)
		(5,603)	(18,365)
Net loss before income taxes		**(8,653)**	(18,468)
Income tax (expense) recovery			
Deferred	13	**2,384**	5,694
		2,384	5,694
Net loss		**$ (6,269)**	$ (12,774)
Net loss attributable to:			
Owners of the Company		**$ (5,992)**	$ (12,633)
Non-controlling interests	10	**(277)**	(141)
		$ (6,269)	$ (12,774)
Net loss per share attributable to owners (Basic and diluted):	14	**$ (0.18)**	$ (0.58)
Weighted average of number of shares outstanding (thousands):		**33,039**	22,037

See accompanying notes to the interim condensed consolidated financial statements

PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Note	**13-week periods ended** **March 29, 2019**	March 30, 2018
Net loss		**$ (6,269)**	$ (12,774)
Other comprehensive loss net of taxes:			
Items that may be recycled through net income:			
Foreign exchange translation of foreign operations, net of tax		**(501)**	-
Comprehensive loss for the period		**$ (6,770)**	$ (12,774)
Comprehensive loss attributable to:			
Owners of the Company		**$ (6,493)**	$ (12,633)
Non-controlling interests	10	**(277)**	(141)
		$ (6,770)	$ (12,774)

See accompanying notes to the interim condensed consolidated financial statements

PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures - Equity Component	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 29, 2017	$ -	$ 29,500	$ 28,005	$ 4,332	$ 35,213	$ -	$ (75,419)	$ 13,573	$ 35,204
Net loss for the period	-	-	-	-	-	-	(12,633)	(141)	(12,774)
Share exchange at Initial Public Offering	57,505	(29,500)	(28,005)	-	-	-	-	-	-
Exchange of liability-classified shares at Initial Public Offering	22,448	-	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at Initial Public Offering	1,597	-	-	(1,597)	-	-	-	-	-
Conversion of debentures at Initial Public Offering	125,269	-	-	-	(35,213)	-	-	-	90,056
Share issuance at Initial Public Offering	70,019	-	-	-	-	-	-	-	70,019
Share issuance costs	(3,910)	-	-	-	-	-	-	-	(3,910)
Stock-based compensation (note 11)	-	-	-	589	-	-	-	-	589
Investment by non-controlling interest	-	-	-	-	-	-	-	913	913
Balance, March 30, 2018	$ 272,928	$ -	$ -	$ 3,324	$ -	$ -	$ (88,052)	$ 14,345	$ 202,545
Balance, December 28, 2018	**$ 273,966**	**$ -**	**$ -**	**$ 3,556**	**$ -**	**$ -**	**$ (86,437)**	**$ 37,928**	**$ 229,013**
Net loss for the period	-	-	-	-	-	-	(5,992)	(277)	(6,269)
Stock options exercised during the period	3,297	-	-	(157)	-	-	-	-	3,140
Stock-based compensation (note 11)	-	-	-	157	-	-	-	-	157
Dividends declared during the period	-	-	-	-	-	-	(4,951)	-	(4,951)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	(501)	-	-	(501)
Distribution to non-controlling interests	-	-	-	-	-	-	-	(300)	(300)
Investment by non-controlling interests	-	-	-	-	-	-	-	1,350	1,350
Balance, March 29, 2019	**$ 277,263**	**$ -**	**$ -**	**$ 3,556**	**$ -**	**$ (501)**	**$ (97,380)**	**$ 38,701**	**$ 221,639**

See accompanying notes to the interim condensed consolidated financial statements

PINNACLE RENEWABLE ENERGY INC.
Interim Condensed Consolidated Cash Flow Statements
(Expressed in thousands of Canadian dollars unless otherwise stated)
(Unaudited)

	Note	13-week periods ended	
		March 29, 2019	March 30, 2018
Cash provided by (used in)			
Operating activities			
Net loss		**$ (6,269)**	$ (12,774)
Finance costs, net	12	**6,409**	382
Items not involving cash:			
Loss on conversion of debentures into shares		**-**	21,881
Amortization of equipment, ROU assets, and intangible assets		**9,583**	5,358
Equity earnings in Houston Pellet Limited Partnership	5	**(312)**	(296)
Loss on disposal of equipment		**30**	141
Stock-based compensation	11	**168**	4,203
Inventory write down		**327**	53
Impairment of Entwistle plant	4	**9,417**	-
Impairment of intangible assets		**278**	-
Insurance recovery for property loss at Entwistle plant	2	**(3,000)**	-
Gain on Class B and D common shares		**-**	(3,563)
Deferred income tax expense (recovery)	13	**(2,384)**	(5,694)
Realized (gain) loss on derivatives		**485**	(201)
Distributions from Houston Pellet Limited Partnership		**2,400**	-
		17,132	9,490
Net change in non-cash operating working capital	15	**(6,878)**	17,899
		10,254	27,389
Financing activities			
Repayment of revolver loan	6	**(1,950)**	(22,000)
Payment of finance leases		**(2,330)**	(189)
Drawings on term debt	6	**-**	20,000
Repayment of term debt	6	**(2,000)**	-
Repayment of delayed draw loan	6	**-**	(20,000)
Repayment of $15M debentures		**-**	(28,577)
Share issuance costs		**-**	(3,851)
Proceeds from Initial Public Offering		**-**	70,019
Proceeds from exercise of stock options	11	**221**	-
Dividends paid during the period		**(4,951)**	-
Investment from non-controlling interest	10	**1,350**	913
Distributions to non-controlling interest	10	**(300)**	-
Finance costs paid		**(3,644)**	(2,751)
		(13,604)	13,564
Investing activities			
Purchase of property, plant and equipment	15	**(6,294)**	(27,492)
Proceeds from sale of property, plant and equipment		**33**	55
		(6,261)	(27,437)
Foreign exchange gain on cash position held in foreign currency		**93**	101
Increase (decrease) in cash and cash equivalents		**(9,518)**	13,617
Cash and cash equivalents, beginning of period		**18,028**	18,908
Cash and cash equivalents, end of period		**$ 8,510**	$ 32,525

See accompanying notes to the interim condensed consolidated financial statements

1. Basis of preparation

Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings Inc.) (the "Company" or "Pinnacle") was incorporated on December 6, 2010 under the laws of the Province of British Columbia and maintains its head office at 350-3600 Lysander Lane, Richmond, British Columbia. Pursuant to an initial public offering ("IPO") on February 6, 2018, the Company's shares became publicly traded on the Toronto Stock Exchange under the symbol "PL".

The Company is primarily involved in the manufacture and sale of wood pellets for both industrial electrical power generation and home heating consumption in North America, Asia and Europe. The Company operates facilities at various locations, including in the Provinces of British Columbia and Alberta in Canada, and in the State of Alabama in the United States. During 2018, the Company entered into the US market by acquiring a 70% interest in Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC") which holds 100% equity in operating company Westervelt Pellet I, LLC ("WPI LLC") with a facility located in Alabama. The Company's newest facility in Smithers, British Columbia started commercial operations on December 29, 2018. The Company also owns and operates the Westview port facility at Prince Rupert, British Columbia for the storage, handling and loading of the Company's and third party wood pellets.

Pinnacle's costs of production are impacted by seasonal weather variation. Costs of fuel for fibre drying in preparation for pelletization are higher in the winter months and can decrease production volumes. In summer, when less drying is required, costs reduce and volumes are generally higher.

The interim condensed consolidated financial statements ("interim financial statements") were authorized for issue by the Board of Directors on May 8, 2019.

Accounting standards adopted in 2019

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements (the policy for recognizing and measuring income taxes in the interim period is described in Note 13).

The changes in accounting policies are also expected to be reflected in the Company's annual consolidated financial statements as at and for the 52-week period ending December 27, 2019.

1. Basis of preparation (continued)

Accounting standards adopted in 2019 (continued)

The Company has applied IFRS 16 *Leases* ("IFRS 16") from December 29, 2018. A number of other new amendments are effective from January 1, 2019 but they do not have a material effect on the Company's interim financial statements.

IFRS 16 *Leases*

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

The Company has elected to apply the modified retrospective approach upon early adoption at December 29, 2018, measuring the ROU asset at an amount equal to the lease liability, which resulted in no change to deficit. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

A. Significant accounting policy

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and instead accounts for the lease and non-lease components as a single lease component.

(Amounts in thousands of Canadian dollars unless otherwise stated)

1. Basis of preparation (continued)

Accounting standards adopted in 2019 (continued)

IFRS 16 *Leases* (continued)

B. As a lessee

The Company leases many assets, including land, production equipment, Information Technology ("IT") equipment, rail cars and vehicles.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises ROU assets and lease liabilities for most leases. The Company has elected not to recognise ROU assets and lease liabilities for some leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The carrying amounts of ROU assets are as below:

	Land & Building	Rail Cars	Vehicles & Equipment	**Total**
Balance, December 29, 2018	$ 7,771	$ 27,625	$ 1,407	$ 36,803
Additions	-	-	802	802
Reclassification from Machinery & other equipment to ROU assets	-	-	2,684	2,684
Amortization	(225)	(1,379)	(233)	(1,837)
Balance, Mar 29, 2019	**$ 7,546**	**$ 26,246**	**$ 4,660**	**$ 38,452**
Cost	$ 7,771	$ 27,625	$ 5,414	$ 40,810
Accumulated amortization	(225)	(1,379)	(754)	(2,358)
Balance, Mar 29, 2019	**$ 7,546**	**$ 26,246**	**$ 4,660**	**$ 38,452**

C. Transition

Previously, the Company classified property leases, which include office and production facilities, and rail car leases as operating leases under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at December 29, 2018. ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

(Amounts in thousands of Canadian dollars unless otherwise stated)

1. Basis of preparation (continued)

Accounting standards adopted in 2019 (continued)

IFRS 16 *Leases* (continued)

C. Transition (continued)

On adoption, the Company elected to apply the following practical expedients and elections:

- IFRS 16 was only applied to contracts previously identified as leases. Contracts not identified as leases under IAS 17 and IFRIC 4 *Determining Whether an Arrangement contains a Lease* were not reassessed.

- ROU assets and lease liabilities were not recognized for leases with less than 12 months of remaining lease term, nor for low value leases for items. Associated lease payments were recognized as an expense on a straight-line basis over the lease term.

- Initial direct costs were excluded from the measurement of the ROU asset at the date of initial application.

- Hindsight was used when determining the lease term if the contract contained options to extend or terminate the lease.

The Company leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the ROU asset and the lease liability at December 29, 2018 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

On transition to IFRS 16, the Company recognized $36,803 of ROU assets and $36,803 of lease liabilities as at December 29, 2018. When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its 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. The impact is as noted below:

	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**

During the 13-week period ended March 29, 2019, the Company recognized $1,658 of depreciation charges and $572 of interest costs from these leases.

Accounting standards issued but not yet effective

A number of amendments to existing standards are effective from January 1, 2020 but they are not expected to have a material effect on the Company's financial statements.

(Amounts in thousands of Canadian dollars unless otherwise stated)

2. Accounts Receivable

As at	March 29, 2019	December 28, 2018
Trade accounts receivable	$ 22,222	$ 34,359
Current portion of receivable against NMTC debt (note 7)	1,494	1,515
Other receivables	10,467	6,453
Amounts receivable from related parties (note 16)	858	690
	$ 35,041	$ 43,017

Included in trade receivables is $9,291 (December 28, 2018 - $23,085) of accrued sales which were invoiced in the month subsequent to period end. Other receivables include $3,000 of insurance recoveries receivable in relation to machinery and other equipment damage at the Entwistle plant (note 18).

3. Inventory

As at	March 29, 2019	December 28, 2018
Wood pellets	$ 11,740	$ 8,896
Fibre	9,514	7,575
Supplies and spare parts	9,337	8,060
	$ 30,591	$ 24,531

The above inventory balances include adjustments to measurement estimates and to net realizable value which resulted in write-ups and write-downs. For the 13-week period ended March 29, 2019, inventory reflects a write-down of $229 (March 30, 2018 - $53). The provision related to wood pellets as at March 29, 2019 was $98 (December 28, 2018 - $105). These adjustments are included in production costs in net loss.

4. Property, plant and equipment ("PP&E")

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	ROU assets	Total
Balance, December 29, 2018	$ 73,757	$ 226,405	$ 30,792	$ 36,803	$ 367,757
Additions	-	-	9,388	802	10,190
Reclassification to ROU assets	-	(2,684)	-	2,684	-
Amortization	(1,290)	(5,827)	-	(1,837)	(8,954)
Disposals and impairments	(7)	(9,323)	(150)	-	(9,480)
Exchange rate movement	(115)	(586)	(2)	-	(703)
Transfer from construction-in-progress	10,827	17,607	(28,434)	-	-
Balance, Mar 29, 2019	**$ 83,172**	**$ 225,592**	**$ 11,594**	**$ 38,452**	**$ 358,810**
Cost	$ 106,333	$ 335,707	$ 11,594	$ 40,810	$ 494,444
Accumulated amortization	$ (23,161)	$(110,115)	$ -	$ (2,358)	$(135,634)
Balance, Mar 29, 2019	**$ 83,172**	**$ 225,592**	**$ 11,594**	**$ 38,452**	**$ 358,810**

Disposals and impairments includes $9,417 of impairment to machinery and other equipment related to the impairment at the Entwistle plant. At March 29, 2019, PP&E includes $2,159 (December 28, 2018 - $Nil) related to the construction-in-progress of rebuilding and repairing damaged machinery and other equipment at the Entwistle plant.

(Amounts in thousands of Canadian dollars unless otherwise stated)

5. Investment in Houston Pellet Limited Partnership ("HPLP")

HPLP manufactures wood pellets for sale to an external customer and to the Company. The investment in HPLP has been accounted for under the equity basis. The following table summarizes the financial information of HPLP and reconciles the Company's carrying value and its share of net profit:

Investment in HPLP	**30%**	30%
As at	**March 29, 2019**	December 28, 2018
Current assets	**$ 14,493**	$ 19,943
Non-current assets	**8,171**	7,660
Current liabilities	**(3,997)**	(2,432)
Non-current liabilities	**(456)**	-
Net assets	**$ 18,211**	$ 25,171
Company's share of net assets	**5,463**	7,551
Goodwill	**1,823**	1,823
Investment in HPLP	**$ 7,286**	$ 9,374

	13-week periods ended	
	March 29, 2019	March 30, 2018
Revenue	**$ 8,014**	$ 8,248
Expense	**(6,583)**	(6,928)
Amortization	**(390)**	(333)
Net profit	**$ 1,041**	$ 987
Company's share of net profit	**$ 312**	$ 296

(Amounts in thousands of Canadian dollars unless otherwise stated)

6. Long-term debt

As at	March 29, 2019	December 28, 2018
Revolver loan	**$ 16,500**	$ 18,450
Term loan	**192,000**	194,000
Delayed draw	**49,806**	50,491
	$ 258,306	$ 262,941
Less:		
Revolver loan - current portion	**(16,500)**	(18,450)
Term loan - current portion	**(10,000)**	(9,500)
Deferred financing costs	**(2,410)**	(2,566)
	$ 229,396	$ 232,425

As at March 29, 2019 and December 28, 2018, the Company had a credit facility from nine lenders through a syndicated loan agreement which provides up to a $50,000 revolving operating line, a $200,000 term loan, and a $130,000 delayed draw term loan (the “Facility”). The Facility has a maturity date of December 16, 2022.

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

At March 29, 2019, the $192,000 term loan was in a Canadian dollar BA loan at 5.31%, the $16,500 revolver loan was in a CAD BA loan at 5.95% and the $49,806 (USD $37,100) delayed draw was in in a USD BA loan at 8.00%. At December 28, 2018, the $194,000 term loan was in a CAD BA loan at 5.03%, the $18,450 revolver loan was in a CAD BA loan at 5.70% and the $50,491 (USD $37,100) delayed draw was in in a USD BA loan at 8.00%. At March 29, 2019, the Company had issued letters of credit totaling $1,438 (December 28, 2018 - $1,438).

EBITDA and Adjusted EBITDA are defined in the Facility agreement and used in the calculation of debt covenants and interest rate margins. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The Facility agreement provides for calculation of the debt covenants prior to the application of IFRS 16. The NMTC Debt is not included in the calculation of Total Funded Debt (as defined in the Facility agreement), as it is indemnified by Westervelt and the Company records a NMTC Receivable from Westervelt of an equal amount. 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.

(Amounts in thousands of Canadian dollars unless otherwise stated)

7. New Market Tax Credit Debt

As at	March 29, 2019		December 28, 2018	
NMTC loan	**$**	**85,221**	$	86,392
	$	**85,221**	$	86,392
Less:				
current portion		**(1,494)**		(1,515)
	$	**83,727**	$	84,877

In 2012 and 2013, WPI LLC received approximately USD $53,000 in net proceeds from financing agreements related to capital expenditures for the Aliceville Facility. This financing arrangement was designed to qualify under the U.S. federal New Markets Tax Credit ("NMTC") program, and was structured with third party financial institutions associated with a U.S. Bank, an investment fund, community development entities majority owned by the investment fund, and a U.S. municipal agency (the "NMTC Investors"). Through this transaction, WPI LLC secured low interest financing from the investment fund.

This transaction also includes the potential for future debt forgiveness, as it contains a put/call feature whereby, at the end of a seven-year compliance period, WPI LLC and its beneficial owners are entitled to repurchase the NMTC Investors' interest in the investment fund. The value attributable to the put price is nominal. Consequently, if exercised, the put could result in the forgiveness of the NMTC Investors' interest in the investment fund.

As at March 29, 2019, WPI LLC has outstanding NMTC debt of approximately USD $63,000 (December 28, 2018 – USD $63,000).

The NMTC Investors are subject to 100% recapture of the credits they receive under the NMTC program for a period of seven years as provided in the U.S. Internal Revenue Code and applicable U.S. Treasury regulations. WPI LLC is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance with applicable requirements could result in the NMTC Investors' projected tax benefits not being realised and, therefore, require WPI LLC to indemnify the NMTC Investor for any loss or recapture of credit under the NMTC program related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

Pursuant to an indemnity agreement entered into as part of the Company's acquisition of interest in the Aliceville Facility, Westervelt has guaranteed WPI LLC's NMTC debt by providing a capital contribution to PWRH of an equal and offsetting amount to the NMTC debt and associated interest payments accrued at the time of the Company's acquisition of interest in PWRHLLC. The NMTC Debt is not included in the calculation of Total Funded Debt for bank covenant calculations as it is indemnified by TWC and the Company carries the NMTC Receivable from TWC of an equal amount.

Pursuant to the put/call feature of the NMTC arrangement, WPI LLC intends to purchase the NMTC Investors' interest in the investment fund at the end of the seven-year compliance period, resulting in the forgiveness of the NMTC debt. This unwinding of NMTC debt is anticipated to occur on or about January 31, 2020.

(Amounts in thousands of Canadian dollars unless otherwise stated)

8. Other long-term liabilities

	March 29, 2019		December 28, 2018	
Decommissioning liabilities	**$**	**2,132**	$	2,101
Restricted share units ("RSUs") liabilities		**14**		-
Lease liabilities		**32,147**		2,234
	$	**34,293**	$	4,335

As at March 29, 2019, other long-term liabilities include $32,147 for long-term lease liabilities under IFRS 16. The current obligation for lease liabilities of $6,345 in included in other current liabilities.

9. Shareholders' equity

For 13-week period ended March 29, 2019, there were 296,378 common shares issued against RSUs and stock options exercised. As at March 29, 2019, there were 33,300,091 (December 28, 2018 – 33,003,713) common shares issued and outstanding and no preferred shares issued and outstanding.

(Amounts in thousands of Canadian dollars unless otherwise stated)

10. Non-controlling Interests

The following table summarizes the non-controlling financial information relating to Lavington Pellet Limited Partnership ("LPLP"), Smithers Pellet Limited Partnership ("SPLP") and Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC") before inter-company eliminations:

LPLP	**25%**	25%
As at	**March 29, 2019**	December 28, 2018
Current assets	**$ 9,700**	$ 9,652
Non-current assets	**37,607**	38,176
Current liabilities	**(4,544)**	(3,631)
Non-current liabilities	**(1,096)**	(852)
Net assets	**$ 41,667**	$ 43,345
Net assets attributable to NCI	**$ 10,417**	$ 10,836
SPLP	**30%**	30%
As at	**March 29, 2019**	December 28, 2018
Current assets	**$ 5,180**	$ 4,868
Non-current assets	**30,544**	29,418
Current liabilities	**(3,620)**	(6,857)
Non-current liabilities	**(324)**	-
Net assets	**$ 31,780**	$ 27,429
Net assets attributable to NCI	**$ 9,534**	$ 8,229
PWRH LLC	**30%**	30%
As at	**March 29, 2019**	December 28, 2018
Current assets	**$ 19,716**	$ 22,849
Non-current assets	**136,232**	135,963
Current liabilities	**(7,809)**	(8,237)
Non-current liabilities	**(83,727)**	(84,877)
Net assets	**$ 64,412**	$ 65,698
Net assets attributable to NCI	**$ 19,324**	$ 19,709
Unrealized loss on foreign exchange	**(574)**	(846)
Net assets attributable to NCI	**$ 18,750**	$ 18,863
Total net assets attributable to NCI	**$ 38,701**	$ 37,928

(Amounts in thousands of Canadian dollars unless otherwise stated)

10. Non-controlling Interests (continued)

	13-week periods ended	
LPLP	**March 29, 2019**	March 30, 2018
Revenue	**$ 10,356**	$ 9,956
Net loss	**(479)**	(456)
Net loss allocated to NCI	**$ (120)**	$ (114)

SPLP	**March 29, 2019**	March 30, 2018
Revenue	**$ 4,308**	$ -
Net loss	**(148)**	(91)
Net loss allocated to NCI	**$ (44)**	$ (27)

PWRH LLC	**March 29, 2019**	March 30, 2018
Revenue	**$ 9,928**	$ -
Net loss	**(378)**	-
Net loss allocated to NCI	**(113)**	-

Total net loss allocated to NCI	**$ (277)**	$ (141)

11. Stock based compensation

The Company has a legacy stock option plan (the "Legacy Plan") pursuant to which it has granted stock options to directors and employees of the Company. Concurrent with the Company's reorganization of its share capital and the closing of the IPO, the Company amended and restated the Legacy Plan in its entirety to comply with public company provisions as required by the Toronto Stock Exchange. In addition, in connection with the IPO, the Company adopted an Omnibus Long-term Incentive Plan (the "LTIP") to facilitate the granting of options and restricted share units ("RSUs") to certain of the Company's directors, executive officers, employees and consultants.

a) Legacy Plan

Prior to the IPO, the Company had granted options to acquire Class D common shares at a price not less than the market value of the shares on the day of the grant and for a term not exceeding 10 years. Options granted vest at a rate of 20% per year from the date of grant.

Concurrent with the IPO and as a result of the amendment of the Legacy Plan, options to acquire Class D common shares were exchanged on an approximately one-to-0.3404 basis for options exercisable to acquire common shares at a post-amendment exercise price such that the in-the-money value of such options remain unchanged (the "Amended Options").

The Amended Options are designated as replacement awards. As a result of the amendment, the Company recognised $16 in stock-based compensation expense for the 13-week period ended March 29, 2019 (13-week period ended March 30, 2018 - $410), which represents the incremental fair value of the vested portion of the replacement awards.

Following completion of the IPO, no additional awards are granted under the Legacy Plan. The outstanding options under the Legacy Plan have a term of 10 years and are exercisable for common shares of the Company. 1,560,455 common shares, representing approximately 4.69% of the Company's outstanding common shares as at March 29, 2019, are reserved and available for issuance upon exercise of options previously granted under the Legacy Plan.

(Amounts in thousands of Canadian dollars unless otherwise stated)

11. Stock based compensation (continued)

a) Legacy Plan (continued)

Details of options granted under the Legacy Plan and outstanding are as follows:

	For the 13-week periods ended			
	March 29, 2019[(1)]		March 30, 2018[(1)]	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of period	**1,594,491**	**$ 8.13**	2,715,376	$ 6.63
Granted	**-**	**-**	-	-
Exercised	**(34,036)**	**6.48**	(1,020,393)	6.48
Forfeited / cancelled / expired	**-**	**-**	-	-
Outstanding, end of period	**1,560,455**	**$ 8.16**	1,694,983	$ 8.03

(1) This table reflects the options and exercise prices after the option amendment which took effect immediately prior to the closing of the IPO.

For the 13-week period ended March 29, 2019, a total of $118 in stock-based compensation expense was recognised in relation to the Legacy Plan (13-week period ended March 30, 2018 - $589). Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

b) Long-term Incentive Plan

In connection with the IPO, the Company adopted the LTIP pursuant to which it can grant awards to directors, executive officers, employees and consultants. Awards are granted in the form of options, which represent the right to acquire common shares at certain exercise prices, and RSUs, which represent the right to receive common shares or cash.

i. Options

During the 13-week period ended March 29, 2019, the Company granted 422,000 options (13-week period ended March 30, 2018 - nil), which vest annually on the anniversary of the grant date over a period of three years. These options expire 10 years from the grant date.

Details of options granted under the Long-term incentive plan and outstanding are as follows:

	For the 13-week periods ended			
	March 29, 2019		March 30, 2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of period	**150,000**	**$ 14.53**	-	$ -
Granted	**422,000**	**9.60**	-	-
Exercised	**-**	**-**	-	-
Forfeited / cancelled / expired	**-**	**-**	-	-
Outstanding, end of period	**572,000**	**$ 10.89**	-	$ -

(Amounts in thousands of Canadian dollars unless otherwise stated)

11. Stock based compensation (continued)

b) Long-term Incentive Plan (continued)

i. Options (continued)

The fair value of the options on grant date is estimated using a Black-Scholes option pricing model with the following assumptions:

Dividend yield	5.33%
Expected volatility	31.82%
Risk-free interest rate	1.55% to 1.87%
Expected life	10 years
Exercise price	$9.56 to $11.78

For the 13-week period ended March 29, 2019, a total of $39 of stock-based compensation expense (13-week period ended March 30, 2018 - $nil) in relation to options granted under the LTIP was included in selling, general and administration expenses.

ii. Restricted share units

During the 13-week period ended March 29, 2019, the Company granted 1,593 RSUs (13-week period ended March 30, 2018 – 268,312 RSUs), which vest annually on the anniversary of the grant date over a period of three years. These RSUs are to be settled no later than December 31 of the calendar year which is three years from the vesting date.

As the RSUs can be settled in either common shares or cash at the option of the RSU holder, the RSUs represent a compound award with liability and equity components. The fair value of the liability component was determined to approximate the fair value of the whole RSU, with no residual value to be assigned to the equity component.

Details of RSUs granted under the Long-term Incentive Plan and outstanding are as follows:

	For the 13-week periods ended	
	March 29, 2019	March 30, 2018
	Number of options	Number of options
Outstanding, beginning of period	**271,921**	-
Granted	**1,593**	268,312
Settled	**(262,342)**	-
Forfeited / cancelled / expired	**-**	-
Outstanding, end of period	**11,172**	268,312

For the 13-week period ended March 29, 2019, a total of $11 of stock-based compensation expense (13-week period ended March 30, 2018 - $3,618) in relation to RSUs granted under the LTIP was included in selling, general and administration expenses.

For the vested portion of RSUs, the fair value of the liability component at period-end is estimated based on the market price of the Company's common shares. For the unvested portion of RSUs, the fair value of the liability component at period-end is estimated using a Black-Scholes option pricing model with the following assumptions:

Dividend yield	5.33%
Expected volatility	31.82%
Risk-free interest rate	1.53% to 1.58%
Expected life	3.76 to 5.76 years
Exercise price	$ nil

(Amounts in thousands of Canadian dollars unless otherwise stated)

12. Finance costs

	13-week periods ended	
	March 29, 2019	March 30, 2018
Interest on revolver loan, term debt and delayed draw loan	**$ 4,037**	$ 1,916
Fair value (gain) loss on derivatives	**1,919**	(1,926)
Realized (gain) loss on derivatives	**(494)**	37
Unrealized (gain) loss on foreign exchange	**88**	(161)
Realized (gain) loss on foreign exchange	**(83)**	63
Amortization of deferred financing fees	**163**	163
Interest on lease liabilities	**572**	-
Other	**207**	290
	$ 6,409	$ 382

13. Income taxes

Income tax expense is recognised at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

The reconciliation of statutory income tax rates to the Company's effective tax rate is as follows:

	13-week periods ended	
	March 29, 2019	March 30, 2018
Income tax (expense) recovery at statutory rate - 27% (2018 - 27%)	**$ 2,336**	$ 4,986
Increase (decrease) related to		
Permanent differences and other	**53**	708
Entities with different tax rates and foreign rate adjustments	**(5)**	-
	2,384	5,694
Classified as:		
Current	**-**	-
Deferred	**2,384**	5,694
Income tax (expense) recovery	**$ 2,384**	$ 5,694

(Amounts in thousands of Canadian dollars unless otherwise stated)

14. Earnings per share

Net profit (loss) per share has been calculated as follows:

	13-week periods ended	
	March 29, 2019	March 30, 2018
Net loss for the period attributable to owners	**$ (5,992)**	$ (12,633)
Cumulative preferred dividends	**-**	(104)
	$ (5,992)	$ (12,737)
Net loss per share (basic and diluted)	**$ (0.18)**	$ (0.58)
Weighted average of number of shares outstanding (thousands)	**33,039**	22,037

For the 13-week periods ended March 29, 2019 and March 30, 2018, the Company incurred net losses attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive.

15. Supplemental cash flow information

	13-week periods ended	
	March 29, 2019	March 30, 2018
Accounts receivable	**$ 11,154**	$ 18,052
Inventory	**(6,387)**	1,703
Other current assets	**(4,140)**	595
Accounts payable and accrued liabilities	**(7,359)**	7,347
Other current liabilities	**(146)**	(9,798)
Net change in non-cash operating working capital	**$ (6,878)**	$ 17,899

	13-week periods ended	
	March 29, 2019	March 30, 2018
PP&E additions during the period	**$ 9,388**	$ 22,465
PP&E additions from prior period paid during the period	**2,354**	11,605
PP&E additions in accounts payable & other liabilities	**(5,448)**	(6,578)
Purchase of PP&E	**$ 6,294**	$ 27,492

(Amounts in thousands of Canadian dollars unless otherwise stated)

16. Related parties

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. During the 13-week period ended March 30, 2018, the Company paid a monitoring fee to ONCAP of $50. The monitoring fee was discontinued upon the closing of the IPO.

HPLP

HPLP is owned 30% by the Company and 70% by non-related third parties. The Company purchases industrial wood pellets from HPLP and earns revenue from sales of fibre and distribution fees. The Company manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Company and the non-related third parties.

	13-week periods ended	
	March 29, 2019	March 30, 2018
Purchases	**$ 8,033**	$ 6,919
Revenue	**930**	1,669
Management fee	**220**	142

As at	**March 29, 2019**	December 28, 2018
Amounts receivable	**$ 858**	$ 690
Amounts payable	**3,949**	2,144

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

LPLP

LPLP is owned 75% by the Company and 25% by a non-related third party. The Company purchases industrial wood pellets from LPLP and earns revenue from sales of fibre at negotiated prices between the Company and the non-related third party. The Company manages and administers the business affairs of LPLP.

	13-week periods ended	
	March 29, 2019	March 30, 2018
Purchases	**$ 10,356**	$ 9,956
Revenue	**1**	17

As at	**March 29, 2019**	December 28, 2018
Amounts receivable	**$ 1,076**	$ 779
Amounts payable	**6,543**	5,830

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

(Amounts in thousands of Canadian dollars unless otherwise stated)

16. Related parties (continued)

SPLP

On October 4, 2017, the Company entered into a limited partnership with a non-related third party for the acquisition and development of a wood pellet facility. SPLP is owned 70% by the Company and 30% by a non-related third party.

	13-week periods ended	
	March 29, 2019	March 30, 2018
Purchases	**$ 4,308**	$ -

As at	**March 29, 2019**	December 28, 2018
Amounts receivable	**$ 564**	$ 624
Amounts payable	**2,719**	740

WPI LLC

On October 15, 2018, the Company entered into a partnership with a non-related third party for the operation of a wood pellet facility. WPI LLC is wholly owned by PWRH LLC which is owned 70% by the Company and 30% by a non-related third party.

	13-week periods ended	
	March 29, 2019	March 30, 2018
Management fee	**$ 375**	$ -

	March 29, 2019	December 28, 2018
Amounts receivable	**$ 264**	$ 901

17. Financial instruments

The Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolver loan and long-term debt are classified as measured at amortised cost. The carrying amounts of these instruments, excluding the revolver loan and long-term debt, approximate their fair values due to their short term to maturity. The carrying amounts of the revolver loan and long term-debt approximates their carrying values as they bear interest at variable rates based on current market rates.

The Company's derivative instruments are classified as measured at fair value through profit and loss ("FVTPL"). IFRS 13, *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritises the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly; and,
- Level 3 - Inputs that are not based on observable market data.

(Amounts in thousands of Canadian dollars unless otherwise stated)

17. Financial instruments (continued)

The following table summarises the Company's financial instruments measured at fair value at March 29, 2019 and December 28, 2018, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

	Fair value hierarchy level	**March 29, 2019**	December 28, 2018
Derivative financial instruments assets (liability)	**Level 1**	**$ 3,220**	$ 5,139

The outstanding notional amounts of the US dollar forward contracts, their contractual maturities and fair values are as follows:

Particulars	**Notional amount**	**Average forward rate**	**Less than 1 year**	**Greater than 1 year**	**Fair value asset (liability)**
As at March 29, 2019					
USD Forward Contracts	**$ 45,150**	**1.2556**	**$ 25,625**	**$ 19,525**	**$ 3,220**
As at December 28, 2018					
USD Forward Contracts	$ 51,775	1.2556	$ 25,800	$ 25,975	$ 5,139

For the 13-week period ended March 29, 2019, the Company recognised a loss of $1,425 (13-week period ended March 30, 2018 – gain of $1,889) on derivative financial instruments in net loss.

The following table summarizes the fair value of the derivative financial instruments included in the statements of financial position:

As at	**March 29, 2019**	December 28, 2018
Other current assets	**$ 1,932**	$ 2,690
Other long-term assets	**1,288**	2,449
	$ 3,220	$ 5,139

(Amounts in thousands of Canadian dollars unless otherwise stated)

18. Contingencies

The Company is involved in various claims associated with its operations. While the outcomes of the proceedings are not determinable, management is of the opinion that the resulting settlements, if any, would not materially affect the financial position of the Company. Should a material loss occur, it would be accounted for when it became likely and reasonably estimable. Otherwise, any losses would be accounted for as a charge to earnings in the period in which the settlement occurred.

Pinnacle maintains several insurance policies, each of are subject to separate deductibles, sub-limits, and specified criteria that must be met for coverage to be applicable. When the coverage provided by a policy is applicable and recovery of all or a portion of incurred expenses is probable, a receivable will be recorded and the loss or expense reduced accordingly. Any gains, or income from business interruption coverage, will not be recorded until all contingencies and recoveries related to the insurance claim have been resolved.

For the 13-week period ended March 29, 2019, an insurance recovery of $3,000 (13-week period ended March 30, 2018 – $nil) has been recorded for the property damage claim for the Entwistle Incident. The Company is in discussions with its insurers on further recoveries which will be recorded when determined.

19. Economic dependence

The Company has certain European and Asian customers whose individual revenue represents 10% or greater of the Company's total revenue. For the 13-week period ended March 29, 2019, three of these customers represented 77% of the Company's total revenue. For the 13-week period ended March 30, 2018, three of these customers represented 69.1% of the Company's total revenues.

The Company's inbound fibre and outbound bulk pellet exports are transported using an integrated logistics supply chain which includes trucking, rail, terminal, and shipping service providers. If alternative sources for these services were required the Company's ability to service existing bulk off-take contracts and/or the Company's costs could be impacted.

20. Revenue from contracts

The Company's revenue derived from the sale of finished wood pellets and the provision of port services was as follows:

	13-week periods ended	
	March 29, 2019	March 30, 2018
Finished wood pellets	**$ 88,222**	$ 69,260
Port services	**1,405**	1,762
	$ 89,627	$ 71,022

Revenue attributed to geographic regions based on the location of the customers was as follows:

	13-week periods ended	
	March 29, 2019	March 30, 2018
Europe	**$ 69,389**	$ 45,214
Asia	**14,929**	21,131
North America	**5,309**	4,677
	$ 89,627	$ 71,022

21. Settlement on damage claim

On January 18, 2019, the Company reached a settlement on a damage claim it was pursuing against certain of its equipment suppliers for net proceeds of $6,461 in the Company's favour. For the 13-week period ended March 29, 2019, net proceeds from the settlement of $6,461 (13-week period ended March 30, 2018 – $nil) was included in other income.

22. Subsequent events

On March 29, 2019 the Company 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, the Company is running at one-third of production capacity at the Entwistle Facility with dry fibre.

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

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

On May 8, 2019, the Company 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.