

2018

ANNUAL REPORT

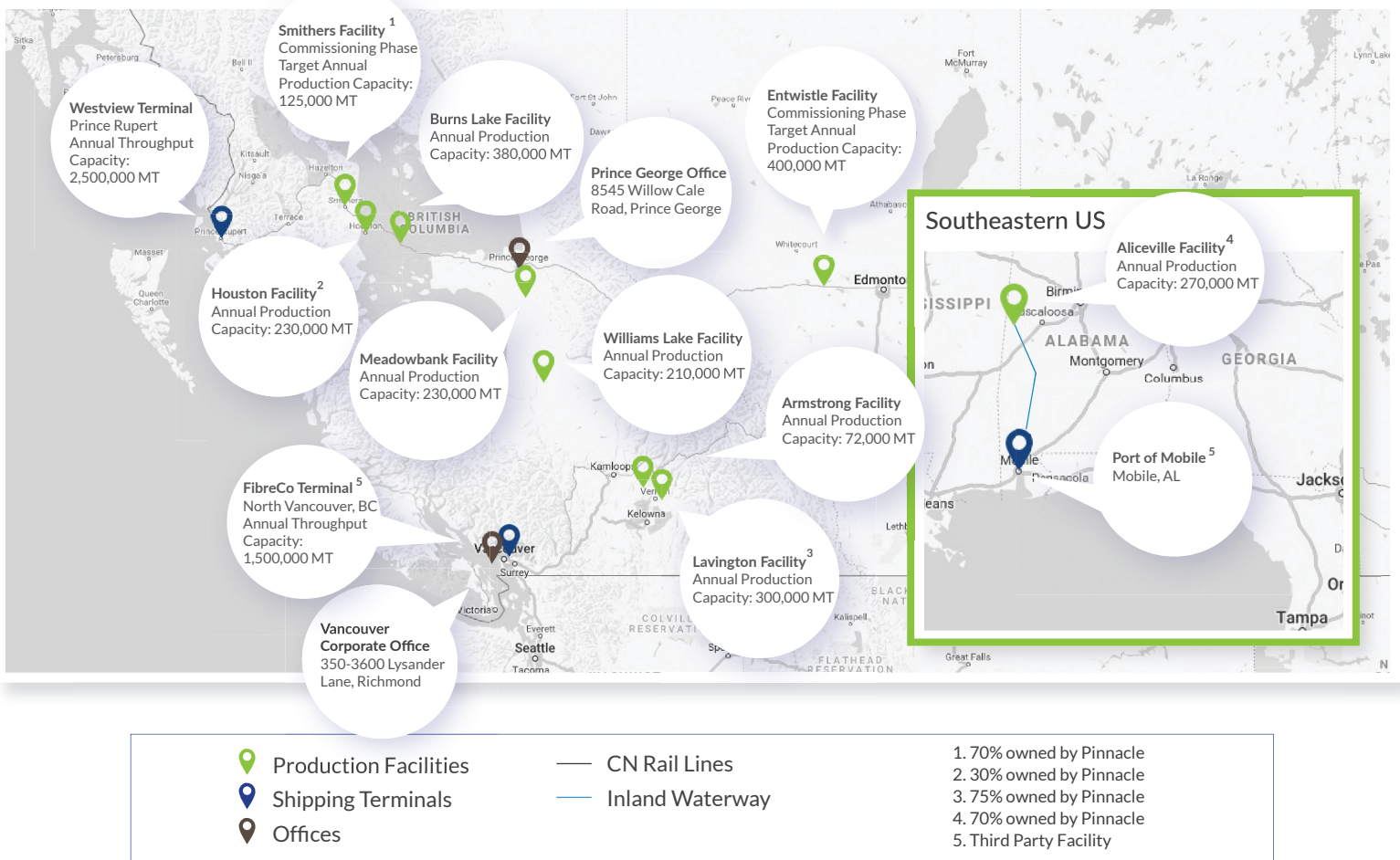


Our mission is to be the world's most reliable producer and supplier of bioenergy products

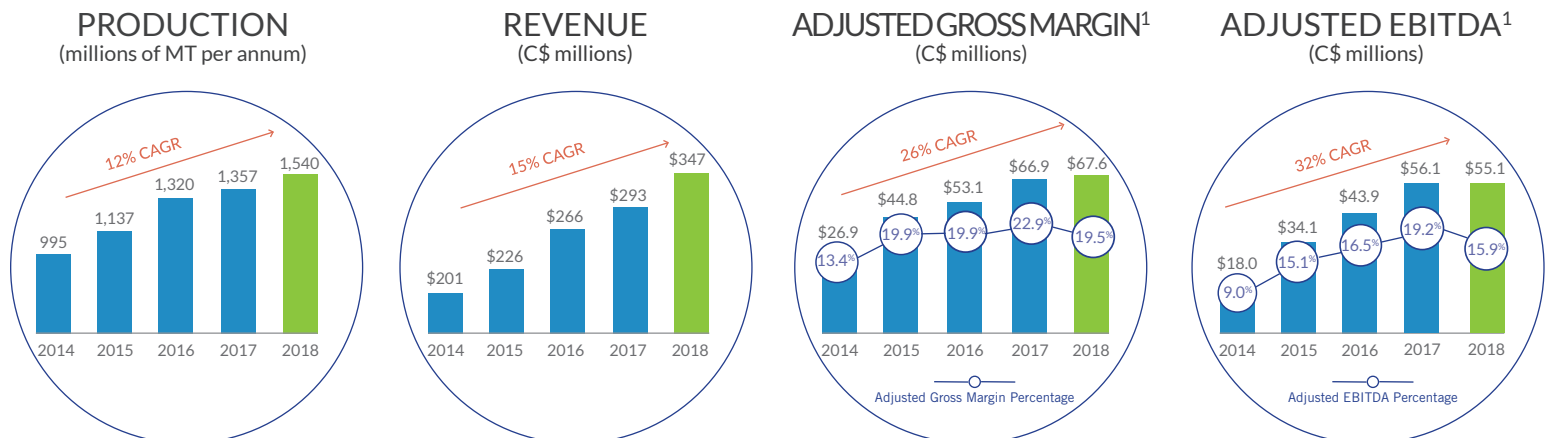
PROFILE

Pinnacle Renewable Energy is a rapidly growing industrial wood pellet manufacturer and distributor and the third largest producer in the world. We produce sustainable fuel for renewable electricity generation in the form of industrial wood pellets. This fuel is used by large-scale thermal power generators as a greener alternative to produce reliable baseload renewable power. We are a trusted supplier to our customers, who require reliable, high-quality fuel supply to maximize utilization of their facilities. We take pride in our industry leading safety practices. We operate eight industrial wood pellet production facilities in western Canada and one in Alabama, and own a port terminal in Prince Rupert, B.C. We have entered into long-term take-or-pay contracts with utilities in the U.K., Europe and Asia that represent 109% of our production capacity through 2021 and 102% of our production capacity through 2026.

Western Canada



PERFORMANCE HIGHLIGHTS



¹Adjusted Gross Margin and Adjusted EBITDA are non-IFRS measures. Please refer to our Management Discussion & Analysis for further information.



To our shareholders,

We are pleased to present our annual report for fiscal 2018, our first year as a public company. We completed our initial public offering (“IPO”) on the Toronto Stock Exchange in February 2018, raising gross proceeds of approximately \$70 million, while a concurrent secondary offering of approximately \$102.5 million enhanced the liquidity of our shares. Pinnacle is now one of two publicly-traded companies that produce and distribute industrial wood pellets for global markets.

In addition to the successful completion of the IPO, we made strong progress in advancing our key growth objectives during the year, including: the expansion of our platform into a new strategic fibre basket in North America; increasing production at our existing facilities; the construction and commissioning of new production facilities; and securing new long-term off-take contracts in rapidly growing markets in Japan and South Korea.

In October 2018, we completed the acquisition of a 70 percent interest in an operating production facility in Aliceville, Alabama from The Westervelt Company (“Westervelt”), a leading forestry and land resource company in the region. We expect this facility to have run-rate production capacity of approximately 270,000 metric tons per annum (“MTPA”) of industrial wood pellets. Westervelt’s nearby sawmill will remain an anchor supplier of fibre, ensuring strong alignment between us. The integration of Aliceville into our platform continues to progress well and current production volumes are meeting expectations. We expect Aliceville to make a contribution to our Adjusted EBITDA this year.

The Aliceville transaction not only increases our production capacity, but it also provides us with enhanced flexibility to cost-effectively allocate supply to our customers in Europe and Asia, as we have the unique ability to ship pellets from ports in both the Atlantic and Pacific regions. Aliceville establishes an entry point for our future growth in the U.S. Southeast.

The safety of our employees is at the core of Pinnacle’s culture. Our “Owning Safety” program represents our commitment to constantly monitor our operations and continually engage with employees to ensure best safety practices at each of our facilities. We believe safety and continuous operational performance can occur concurrently. As a reflection of this, during 2018, we safely increased our same-facility production volume by three percent, reflecting record performance at our Burns Lake and Lavington Facilities.

Our new Entwistle, Alberta facility, which we expect to be our largest production facility by volume upon reaching run-rate production of 400,000 MTPA, entered into commercial production at the end of the second quarter of 2018. We were gradually ramping up production at Entwistle and were in the final stages of commissioning the facility in February 2019, when a fire event occurred, causing extensive damage to the dryer area, resulting in the temporary suspension of operations. In the coming weeks, we expect to determine the amount of insurance recoveries to which we are entitled and will provide an update at that time. We resumed production at Entwistle, using dry fibre at the end of March 2019, and

we are focused on ensuring the highest levels of safety as we move towards restarting full operations. We are committed to establishing Entwistle as a world class production facility.

Our new production facility in Smithers, B.C., which is owned 70 percent by Pinnacle and 30 percent by West Fraser Timber Co. Ltd. ("West Fraser"), commenced commercial production on the first day of our 2019 fiscal year, and is well positioned to contribute to Adjusted EBITDA in 2019. We expect Smithers to reach full run-rate production of 125,000 MTPA in the third quarter of fiscal 2019.

When our new Entwistle, Aliceville and Smithers production facilities reach full run-rate production, we will have added approximately 795,000 MTPA of production capacity through growth initiatives we commenced in 2018, representing an increase of more than 50 percent. Further, our new production facilities in Alberta and Alabama enhance the diversification of our fibre supply.

The expansion of our production capacity supports our large and growing contracted backlog. During 2018, we secured six new, long-term contracts with several leading Japanese corporations totaling \$1.9 billion, and we secured two new long-term contracts with Daesan Power in South Korea totaling \$1 billion. These new contracts significantly diversify our customer base, and firmly establish Pinnacle as a leading supplier in the key Asian and European markets.

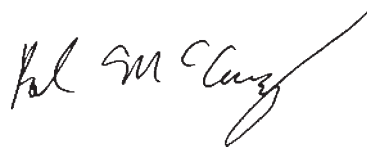
Our contracted backlog was \$5.9 billion at year-end, a 97 percent increase compared to the end of 2017, and the weighted average remaining life of our off-take contracts has been extended to nine years, supporting the long-term visibility of our cash flows.

During 2018, we strengthened our project development and fibre management teams to support our ongoing growth. With nine production facilities, a presence in two major fibre baskets, and a growing contracted backlog, our strengthened management team will position Pinnacle to optimize new growth projects and the performance of our existing operations, as we continue to scale our platform to meet growing market demand.

Looking ahead, our future growth will be driven by steady European customer demand and fast-growing markets in Asia – Japan in particular. Through increasing capacity at our existing production facilities, the addition of other greenfield and brownfield projects, and the continued evaluation of acquisition opportunities in strategic North American fibre regions, we expect to continue growing our production capacity proportionately with increasing global demand.

In 2019, our focus is on Entwistle and continuing to build our platform in support of our long-term growth. On behalf of our Board and all the Pinnacle team members, we appreciate your support as we continue to advance our growth strategy and build long-term value for stakeholders.

Sincerely,



Robert McCurdy
Chief Executive Officer



Gregory Baylin
Chair of the Board

Fiscal 2018

For the 52-week periods ended
December 28, 2018 and
December 29, 2017

February 21, 2019

Management's Discussion & Analysis



Pinnacle.

RENEWABLE ENERGY INC.

(formerly Pinnacle Renewable Holdings Inc.)

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated February 21, 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 December 28, 2018 ("Q4 2018") and the 52-week period ended December 28, 2018 ("Fiscal 2018"). This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for Fiscal 2018 (the "Consolidated Financial Statements"), 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. We manage our business on the basis of one operating and reportable segment.

All references in this MD&A to "Fiscal 2016" are to our 53-week period ended December 30, 2016, references to "Fiscal 2017" are to our 52-week period ended December 29, 2017, all references to "Fiscal 2019" are to our 52-week period ending December 27, 2019, all references to "Fiscal 2020" are to our 53-week period ending December 25, 2020, and all references to "Fiscal 2021" are to our 52-week period ending December 31, 2021. All references in this MD&A to "Q3 2018" are to our 13-week period ended September 28, 2018, and all references to "Q4 2017" are to our 13-week period ended December 29, 2017. Our fiscal year is the 52 or 53-week period ending the last Friday of the calendar year. The last 53-week fiscal year occurred in Fiscal 2016.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Some of the specific forward-looking information contained herein include, but are not limited to, statements with respect to: our expectations regarding growth in biomass-based fuel sources within the European and Asian power generating portfolio; growth in global demand for wood pellets; our 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; and anticipated production from our facilities.

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

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Financial Risk Factors" section of this MD&A and in the "Risk Factors" section of our Annual Information Form ("AIF") dated March 21, 2018, which can be accessed under the Company's profile on SEDAR at www.sedar.com. The Company

cautions that the list of risk factors and uncertainties described herein and in the AIF are not intended to represent a complete list of the factors that could affect us. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned to not place undue reliance on such information.

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

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

COMPANY OVERVIEW, STRATEGY AND OBJECTIVES

Company Overview

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

As one of only three large global suppliers, we currently operate 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. Early in Fiscal 2019, we commenced commercial production at the Smithers Facility (125,000 MTPA) in partnership with West Fraser Timber Co. Ltd. (“West Fraser”). On October 15, 2018, we acquired a 70% interest in the Aliceville Facility (270,000 MTPA). On June 29, 2018, we commenced commercial production at our wholly-owned Entwistle Facility (as defined herein) (400,000 MTPA) and continue to ramp up production. 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 109% of our production capacity through 2021 and 102% of our

production capacity through 2026, on an aggregated basis, including new production capacity from the Aliceville, Entwistle and Smithers Facilities. As at December 28, 2018 our total Contracted Backlog (as defined herein) was \$5.9 billion.

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, as well as 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

Initial Public Offering

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

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

Secondary Offering

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

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

Acquisition in U.S. Southeast

On October 15, 2018, we closed the acquisition of a 70% interest in an operating industrial wood pellet production facility located in Aliceville, Alabama (the “Aliceville Facility”) from The Westervelt Company (“Westervelt”), a diversified land resources company, at a purchase price of approximately US\$36.8 million. Westervelt retained a 30% interest in the Aliceville Facility. We funded the purchase of our 70% stake in the Aliceville Facility through a draw on our credit facility and cash on hand. Pinnacle and Westervelt are in the process of implementing a US\$10 million capital spending program to improve safety, product quality and plant efficiencies, with 70% of such costs being attributable to the Company. Capital spending is expected to commence in the second quarter of Fiscal 2019.

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

To support our expansion into the United States, we have recruited dedicated senior business development resources in the United States.

New Off-take Agreements

During Q4 2018, we entered into two new long-term, take-or-pay contracts with customers in Asia:

- On December 14, 2018, we entered into a new long-term, take-or-pay contract with Daesan (as defined herein), our second contract with this customer. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Daesan beginning in 2022.
- On December 28, 2018, we entered into a long-term, take-or-pay contract with Sumitomo (as defined herein), our second contract with this customer. Under the terms of the contract, we will supply 50,000 MTPA of industrial wood pellets starting in the second half of 2020 for a one-year term. Following the initial one-year term, we will supply a total of 150,000 MTPA for the duration of the contract.

During Fiscal 2018, we entered into a record number of long-term, take-or-pay off-take contracts with existing and new customers in South Korea and Japan. With the inclusion of new contracts entered into during Fiscal 2018, which have longer terms than our existing contracts and extend past 2030, we have 109% of our production capacity contracted through 2021, and 102% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities. As a result of new contracts totaling \$3.3 billion entered into during Fiscal 2018, including one contract through our acquisition of interest in the Aliceville Facility, the weighted average remaining life of our portfolio of off-take contracts with customers has been extended from less than seven years as at the end of Fiscal 2017 to nine years as at the end of Fiscal 2018. As at December 28, 2018, our Contracted Backlog was \$5.9 billion, a 97% increase over our Contracted Backlog of \$3.0 billion as at December 29, 2017.

Smithers Facility Commencement of Production

In November 2018, we commenced initial pellet production at the Smithers Facility. The production processes at the Smithers Facility are smaller and simpler than many of our other facilities. In addition, the majority of fibre is supplied by West Fraser locally. Commissioning of the Smithers Facility is proceeding in line with our expectations. In early Fiscal 2019, we commenced commercial production at the Smithers Facility. Full run-rate production of 125,000 MTPA is expected in the third quarter of Fiscal 2019.

Amalgamation

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

Entwistle Facility Fire Event

On February 11, 2019, Pinnacle temporarily suspended operations at our Entwistle Facility due to a fire and explosion that occurred at the dryer area of the facility. The Company is currently investigating the cause of the incident and developing action plans to restart the facility. Pinnacle's priority is to manage the impacts of the incident on its employees, contractors, customers, suppliers, and the neighboring community. Management, Alberta Labour Occupational Health & Safety Alberta (“OH&S”), local fire authorities, Pinnacle's insurance adjusters and equipment suppliers, as well as third-party experts are engaged in an investigation into the accident. OH&S released control of the site back to the Company on February 20, 2019.

Pinnacle is now working with its insurers, suppliers, and contractors to evaluate the damage and develop a plan to restart the dryer area. The rest of the Facility sustained little damage and Pinnacle will resume production of wood pellets in March 2019 from

dry fibre. The Company is working with its customers to mitigate the impact of the temporary suspension of operations at the Facility.

Prior to the incident, the Company was successfully ramping-up the Facility. The storage silo is now fully operational and unit train delivery service commenced in Q4 2018. Fibre processing was improving and daily production rates were meeting the Company's previously established ramp-up curve. Management expects consistent performance improvement once the Facility resumes production.

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 Q3 2018* edition shows further Japanese market growth from Japanese coal plant co-firing. Many coal plants are in the process of obtaining certification under the feed-in-tariff, with several having obtained approval as of October 2018. In Q4 2018, Toyota Tsusho Corporation ("Toyota Tsusho") commenced construction of a biomass power plant in Fukuoka, Japan. We will supply industrial wood pellets to this plant through our contract with Toyota Tsusho signed in June 2018, beginning in 2021 (see below under New and Extended Off-take Agreements).

In Q3 2018, the South Korean government clarified its program for biomass-fired IPP projects with defined start and completion dates. This has generated increased demand in South Korea for long-term, secure fuel contracts.

The conversion of existing power generating units in the Netherlands to utilize wood pellets by Uniper SE and RWE AG, two of Europe's largest power generators and energy traders, was completed during Q4 2018 and early 2019. We made our first shipment to Uniper SE in Q3 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

The following is a summary of long-term sales contracts that we entered into with customers in Fiscal 2018.

- On April 19, 2018, we announced that we entered into a long-term, take-or-pay off-take contract with Ube Industries Ltd. ("Ube"), a diversified Japanese conglomerate. Under the terms of the contract, we will supply 70,000 MTPA of industrial wood pellets to Ube beginning in late 2019.
- On May 2, 2018, we announced that we entered into a long-term, take-or-pay contract with Toyota Tsusho, a large trading and investment company in Japan and a group member of TOYOTA. Under the terms of the contract, we will supply 30,000 MTPA of industrial wood pellets to Toyota Tsusho beginning in late 2021.
- On May 2, 2018, we also announced that we entered into a long-term, take-or-pay contract with Sumitomo Corporation ("Sumitomo"), a large, diversified trading company in Japan. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Sumitomo beginning in late 2022.
- On May 22, 2018, we announced that we entered into a new long-term, take-or-pay contract with Hanwa Co., Ltd. ("Hanwa"), a large, diversified trading company in Japan. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Hanwa beginning in early 2022.

- On June 27, 2018, we announced that we entered into a new long-term, take-or-pay contract with CGN Daesan Power Co., Ltd. (“Daesan”), a subsidiary of CGN New Energy Holdings Co., Ltd, a diversified independent power producer in Asia. Under the terms of the contract, we will supply 315,000 MTPA of industrial wood pellets to Daesan beginning in 2021.
- On June 27, 2018, we announced that we entered into a long-term, take-or-pay contract with Toyota Tsusho, our second contract with this customer. Under the terms of the contract, we will supply 170,000 MTPA of industrial wood pellets to Toyota Tsusho beginning in 2021.
- On December 14, 2018, we entered into a new long-term, take-or-pay contract with Daesan, our second contract with this customer. Under the terms of the contract, we will supply 75,000 MTPA of industrial wood pellets to Daesan beginning in 2022.
- On December 28, 2018, we entered into a long-term, take-or-pay contract with Sumitomo, our second contract with this customer. Under the terms of the contract, we will supply 50,000 MTPA of industrial wood pellets starting in the second half of 2020 for a one-year term. Following the initial one-year term, we will supply a total of 150,000 MTPA for the duration of the contract.

During Fiscal 2018, we signed six long-term off-take contracts totaling \$1.9 billion with customers in Japan. These contracts continue to advance our strategy for sales growth into Japan and build on the overall sales momentum that we had in Fiscal 2017 wherein we signed four long-term contracts totalling \$421 million, a third of which were with customers in Japan. Our growing contract backlog in Japan underlines both the increasing adoption of biomass and the strength of our competitive position in this market.

During the second quarter of Fiscal 2018 (“Q2 2018”), we signed our first long-term contract in South Korea with Daesan, which is an important milestone for us as it represents our largest contract to date in Asia. As the first long-term industrial wood pellet contract to ever be signed in South Korea, this new agreement attests to the country's growing commitment to decarbonization. During Q4 2018, we signed a second long-term contract with Daesan. The two long-term contracts signed with Daesan in Fiscal 2018 totaled \$1.0 billion, thereby further establishing our strategic position in the Pacific Rim.

With the inclusion of new contracts entered into during Fiscal 2018, which have longer terms than our existing contracts and extend past 2030, we have 109% of our production capacity contracted through 2021, and 102% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities. As a result of new contracts totaling \$3.3 billion entered into during Fiscal 2018, including one contract through our acquisition of interest in the Aliceville Facility, 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 Fiscal 2018. As at December 28, 2018, our Contracted Backlog was \$5.9 billion, a 97% increase over our Contracted Backlog of \$3.0 billion as at December 29, 2017.

We have also improved our customer diversification. 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.

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 British Columbia and Alberta, with all of our Canadian production facilities accessible along Canadian

National Railway (“CN”) rail lines. Our port infrastructure is a critical element of our supply chain and is comprised of our wholly-owned Westview Terminal in Prince Rupert, B.C. and our access to the Fibreco Export Inc. terminal at the Port of Vancouver via a long-term throughput contract.

Our 3% same-facility production volume increase in Fiscal 2018 compared to the same period last year, reflects record performance at our Burns Lake and Lavington Facilities. This strong operational performance was achieved despite a challenging environment including significant CN rail disruptions in the first two quarters of Fiscal 2018 resulting in lost production and extensive forest fires in British Columbia in Q3 2018. Active management of fibre supply and rail logistics were required to mitigate these factors. We continue to manage our network of facilities to adjust for potential temporary operational disruptions, while achieving production growth from continuous improvement programs.

In response to British Columbia 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 now expect to receive a decreased supply of sawmill residuals (bark, sawdust and shavings) that can be acquired at a lower cost, and a higher proportion of more expensive harvest residuals (biologs and bush grind). We expect the impact to be mainly limited to some of our fibre sourcing at our Burns Lake and Meadowbank Facilities.

We continue to collaborate with the Government of British Columbia, local communities and the First Nations, to expand fibre availability and reduce cost 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, 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 burned 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 Industries Ltd. (“Tolko”), and Westervelt, to optimize both the cost and quality of our fibre supply. We have installed specialized processing equipment, such as log chippers and de-stoners, within our network of production facilities that provide us with an industry-leading ability to process a wide range of wood fibre.

Current fibre conditions in British Columbia 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.

New Production Facilities

Entwistle

The Entwistle production facility (the “Entwistle Facility”) is owned 100% by Pinnacle. The Entwistle Facility is located in Entwistle, Alberta, 95 kilometres west of Edmonton, in close proximity to abundant wood fibre sources, including several major sawmills. The Entwistle Facility commenced commercial production on June 29, 2018 at capitalised costs of \$95.0 million (which include costs incurred to bring the Entwistle Facility to operate in a manner as intended by management, capitalised pre-operating commissioning costs, and capitalised borrowing costs).

Subsequent to the end of Fiscal 2018, on February 11, 2019, Pinnacle temporarily suspended operations at its Entwistle Facility due to an incident that occurred at the dryer area of the facility. At present, the cause of the incident is under investigation. Pinnacle’s priority is to manage the impacts of the incident on its employees, contractors, customers, suppliers, and the neighboring community.

Prior to the incident, we were successfully ramping-up the Entwistle Facility. The storage silo is now fully operational and unit train delivery service commenced in Q4 2018. We have made progress addressing the initial fibre quality issues with our suppliers but were still incurring higher production costs than expected during the ramp-up of the facility. Achievement of run-rate capacity at the Entwistle Facility will be delayed due to the incident. We are currently cooperating with authorities in evaluating the damage to the dryer area in order to quantify the financial impact and prepare insurance claims. After we understand the program

for repair and replacement of damaged equipment, we will prepare a revised production ramp-up curve and determine the financial impact of this event. We will provide more disclosure when we have further information.

Smithers

The Smithers production facility (the “Smithers Facility”) is owned 70% by Pinnacle and 30% by West Fraser through a partnership, Smithers Pellet Limited Partnership (“SPLP”), and is located in Smithers, B.C. 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 will be incurred at a later date. The budget for the facility is \$33.0 million. Total capitalised costs include costs incurred to bring the Smithers Facility to operate in a manner as intended by management, 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 was \$28.4 million.

Commissioning of the Smithers Facility is proceeding in line with our expectations. In November 2018, we commenced initial pellet production. The production processes at the Smithers Facility are smaller and simpler than many of our other facilities. In addition, the majority of fibre is supplied by West Fraser locally. 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 ramping up production capacity in 2018. As part of the acquisition, and consistent with our operating strategy, the Aliceville Facility has entered into long-term wood fibre supply contracts for residuals with several large local sawmills. Westervelt's sawmill, located in Moundville, Alabama, will remain an anchor supplier, ensuring strong alignment between Pinnacle and Westervelt.

Our experienced operations team is working closely with the Aliceville Facility team for safety and operations process training, systems implementation, and asset configuration optimization to continue the production ramp up. Safety and operational performance improvements continue to progress and production volumes have improved consistently. The Aliceville Facility is well-positioned to contribute to Adjusted EBITDA growth in Fiscal 2019. We will commence significant planned capital improvements in the second quarter of Fiscal 2019.

Production Capacity to Meet New and Extended Off-take Agreements

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

Once the Entwistle, Smithers and Aliceville facilities reach full run-rate production, our annual production capacity will have grown by 795,000 MTPA, an increase of 56%, 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:

<i>(In millions)</i>	Q4 2018		Q4 2017		Fiscal 2018		Fiscal 2017	
	13 weeks		13 weeks		52 weeks		52 weeks	
Revenue	\$	103.7	\$	73.0	\$	347.4	\$	292.7
Production costs	\$	73.5	\$	47.4	\$	233.1	\$	188.4
Distribution costs	\$	13.4	\$	9.9	\$	46.9	\$	38.4
Selling, general and administration expenses	\$	3.9	\$	4.3	\$	22.8	\$	15.3
Net profit (loss) and comprehensive income (loss)	\$	7.5	\$	0.1	\$	2.7	\$	(4.9)
Adjusted Gross Margin*	\$	16.7	\$	15.9	\$	67.6	\$	66.9
Adjusted Gross Margin Percentage*		16.1%		21.8%		19.5%		22.9%
Adjusted EBITDA*	\$	13.8	\$	12.8	\$	55.1	\$	56.1
Free Cash Flow*	\$	8.2	\$	4.6	\$	32.2	\$	38.1

<i>(In billions)</i>	December 28,		December 29,	
	2018		2017	
Contracted Backlog	\$	5.9	\$	3.0

* See “Non-IFRS Measures”.

SUMMARY OF FACTORS AFFECTING PERFORMANCE

We believe that our performance and future success depends on a number of factors that present significant opportunities. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. See also the “Financial Risk Factors” section of this MD&A and the risk factors identified in 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 the United Kingdom, continental Europe and Asia. 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 109% of our production capacity contracted through 2021, and 102% of our production capacity contracted through 2026, on an aggregated basis, including production capacity of the Aliceville, Entwistle and Smithers Facilities.

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

New Development Projects

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

Following our Development Blueprint, we construct and commission new production facilities to support new sales contracts. 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 fire event on February 11, 2019. In 2018 we have added 795,000 MT of run-rate production capacity including our Aliceville Facility. 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;
- **Seasonality:** Extreme cold weather can impact equipment performance at our production facilities. Extremely wet weather and high moisture content in wood fibre can slow production and increase wood fibre drying costs. Extreme, prolonged dry weather conditions can lead to fire risk and the potential disruption of wood fibre supply when loggers cannot enter the forests to supply the production facilities. Our extensive long-term contractual relationships with some of the major forest companies in Canada and the U.S. allow us to offset wood fibre shortfalls in these situations. We also manage our inventory levels of logs to mitigate potential production disruptions;
- **Downtime:** Our “Owning Safety” culture established by management and shared amongst our partners at jointly-owned facilities provides high engagement and reduces downtime related to medical incidents and labour challenges; and
- **Capacity Utilization:** We utilize real-time information gathering to monitor equipment performance and utilize preventative maintenance programs with regularly scheduled production shutdowns to optimize equipment uptime and production throughput. We operate to stringent environmental standards and use specialized equipment and processes to remove particles from production emissions. Real time monitoring of production facility information affords us the opportunity to respond quickly to production disruptions for any reason.

Wood Fibre and Forest Residuals

Our production facilities are located in regions with a high volume of available, competitively priced and sustainably managed wood fibre ideal for the production of high calorific value industrial wood pellets. We have been successful in extending the terms of wood fibre agreements to support our existing and new production for up to 10 to 15-year terms. We have also expanded the types of wood fibre used in our production facilities and partnered with four of our largest wood fibre suppliers in the ownership of existing and in-development production facilities. These partnerships help ensure that our wood fibre suppliers have a vested interest in the economic success of our production facilities. Our wood fibre demand is symbiotic with, rather than in competition

with, demand for high-grade wood for use by other forest product industries, such as lumber production. The use of unmerchantable 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 British Columbia forest industry will 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).

Trucking, Rail and Port Logistics

Our production facilities in Western Canada are strategically located in highly concentrated sawmill regions, adjacent to rail lines and on back-haul routes in key wood fibre regions, enabling efficient, cost-effective transportation of industrial wood pellets and providing access to wood fibre supply. If there are rail line or trucking disruptions, mitigating strategies can be deployed. Our rail provider has been experiencing substantial growth and resourcing challenges as well as environmental factors such as the harsh winter conditions in the first quarter of Fiscal 2018 and forest fires in Q3 2018, which have impacted our 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 Export Inc. terminal at the Port of Vancouver. The availability of alternative ports for shipping helps mitigate our risk. The weather sensitivity of our cargo and occasional port congestion of ships and rail cars can delay our shipment and increase demurrage costs. Conservative shipping scheduling provides the opportunity for pulling shipments forward and reducing costs when the weather is favourable. Due to the issues 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 Q4 2018.

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 hurricane season in the U.S. Southeast, the shipping schedules of certain wood pellet producers were affected. The shipping schedules of the Aliceville Facility were not affected.

Sustainability

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

KEY PERFORMANCE INDICATORS

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

IFRS Measures

Revenue

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

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

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

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

Contracted Backlog

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

Costs of Production and Distribution

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

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

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

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

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

Gross Margin

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

Selling, General and Administration

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

Equity Earnings in HPLP

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

Non-controlling interests

The Lavington Facility is operated through Lavington Pellet Limited Partnership (“LPLP”), 75% owned by 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 recognized under existing contracts assuming deliveries occur as specified in the contracts. As a result of customer preferences or logistics management, there can be movement in the timing of deliveries that may result in revenue being recognized in either a preceding or following interim fiscal period. Our expected future industrial wood pellet sales under our Contracted Backlog as of December 28, 2018 is as follows (\$ billions):

Fiscal 2019	\$ 0.5
Fiscal 2020	0.5
Fiscal 2021 and thereafter	<u>4.9</u>
Total product sales under Contracted Backlog	<u>\$ 5.9</u>

SELECTED CONSOLIDATED FINANCIAL INFORMATION

<i>(In thousands except per share amounts)</i>	Q4 2018 13 weeks	Q4 2017 13 weeks	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2016 53 weeks
<u>Consolidated Statements of Profit (Loss) Data</u>					
Revenue	\$ 103,728	\$ 72,958	\$ 347,440	\$ 292,727	\$ 266,338
Costs and expenses:					
Production	73,472	47,377	233,107	188,414	173,693
Distribution	13,371	9,925	46,899	38,421	39,474
Selling, general and administration	3,933	4,347	22,789	15,268	12,331
Amortization of equipment and intangible assets	7,220	5,280	24,678	21,819	21,211
Profit (loss) before finance costs and other (income) expense	\$ 5,732	\$ 6,029	\$ 19,967	\$ 28,805	\$ 19,629
Finance cost	(1,740)	6,120	3,042	24,251	1,000
Other (income) expense	(1,626)	(358)	15,638	8,912	7,796
Net profit (loss) before income taxes	\$ 9,098	\$ 267	\$ 1,287	\$ (4,358)	\$ 10,833
Income tax expense (recovery):					
Current	-	-	-	-	(2)
Deferred	1,643	163	(1,415)	526	(5,569)
Net profit (loss)	\$ 7,455	\$ 104	\$ 2,702	\$ (4,884)	\$ 5,262
Net profit (loss) per share attributable to owners					
Basic and diluted	\$ 0.22	\$ (0.04)	\$ 0.05	\$ (0.22)	\$ 0.11
<u>Consolidated Statements of Cash Flows</u>					
Cash provided by (used in)					
Operating activities before net change in non-cash operating working capital					
Operating activities before net change in non-cash operating working capital	\$ 14,565	\$ 11,305	\$ 50,756	\$ 51,128	\$ 44,742
Net change in non-cash operating working capital	\$ 3,998	\$ (15,302)	\$ 7,017	\$ (20,183)	\$ (14,126)
Financing activities	\$ 61,110	\$ 41,165	\$ 59,930	\$ 48,812	\$ (20,958)
Investing activities	\$ (68,809)	\$ (29,786)	\$ (118,797)	\$ (72,682)	\$ (13,250)

<i>(In thousands except per MT amounts)</i>	Q4 2018	Q4 2017	Fiscal	Fiscal	Fiscal
	13 weeks	13 weeks	2018	2017	2016
			52 weeks	52 weeks	53 weeks
<u>Other Financial Data</u>					
Adjusted EBITDA ⁽¹⁾	\$ 13,830	\$ 12,775	\$ 55,102	\$ 56,121	\$ 43,922
Adjusted EBITDA per MT ⁽¹⁾	\$ 29.24	\$ 38.25	\$ 34.61	\$ 40.87	\$ 33.68
Adjusted Gross Margin per MT ⁽¹⁾	\$ 35.23	\$ 47.70	\$ 42.49	\$ 48.74	\$ 40.72
Adjusted Gross Margin Percentage ⁽¹⁾	16.1%	21.8%	19.5%	22.9%	19.9%
Maintenance capital expenditures	\$ 2,610	\$ 4,549	\$ 8,059	\$ 9,040	\$ 4,434
Growth capital expenditures	\$ 20,358	\$ 24,586	\$ 65,072	\$ 63,016	\$ 8,916
<u>Operating Data</u>					
MT of industrial wood pellets sold	473	334	1,607	1,373	1,304

<i>(In thousands)</i>	December	December	Decemb
	28,	29,	er 30,
	2018	2017	2016

Selected Consolidated Statements of Financial Position Data

Cash	\$ 18,028	\$ 18,908	\$ 12,112
Property, plant and equipment	\$ 330,899	\$ 238,196	\$ 175,849
Total assets	\$ 627,294	\$ 433,645	\$ 353,511
Term debt and shareholders' debentures (including current portion)	\$ 241,925	\$ 285,694	\$ 234,142
Total non-current liabilities	\$ 321,637	\$ 318,811	\$ 263,600
Total equity	\$ 229,013	\$ 35,204	\$ 37,951

RESULTS OF OPERATIONS

Analysis of Results for Q4 2018 to Q4 2017

The following section provides an overview of our financial performance in Q4 2018 compared to Q4 2017.

<i>(In thousands)</i>	Q4 2018 13 weeks	Q4 2017 13 weeks	Q4 2018 vs. Q4 2017
MT of industrial wood pellets sold	473	334	139
Revenue	\$ 103,728	\$ 72,958	\$ 30,770
Costs and expenses			
Production	73,472	47,377	26,095
Distribution	13,371	9,925	3,446
Selling, general and administration	3,933	4,347	(414)
Amortization	7,220	5,280	1,940
	97,996	66,929	31,067
Profit before finance costs and other (income) expenses	5,732	6,029	(297)
Finance (income) cost	(1,741)	6,120	(7,861)
Other (income) expense	(1,626)	(358)	(1,268)
	(3,367)	5,762	(9,129)
Net profit (loss) before income taxes	9,099	267	8,832
Income tax expense (recovery)			
Current	-	-	-
Deferred	1,643	163	1,480
Income Taxes	1,643	163	1,480
Net profit (loss) and comprehensive income (loss)	\$ 7,456	\$ 104	\$ 7,352

Revenue

Revenue for Q4 2018 totaled \$103.7 million, an increase of \$30.8 million, or 42.2%, compared to \$73.0 million for Q4 2017. This increase was primarily attributable to higher sales volume.

Production cost

Production costs were \$73.5 million for Q4 2018, an increase of \$26.1 million compared to \$47.4 million for Q4 2017, primarily due to an increase in sales volume, higher fibre costs and higher cash conversion costs. We experienced higher than expected repair and maintenance expenditures at the Entwistle Facility related to fibre quality issues and lower than projected production levels due to shortage of rail car engines prior to the storage silo commissioning.

Distribution cost

Distribution costs were \$13.4 million for Q4 2018, an increase of \$3.4 million compared to \$9.9 million for Q4 2017, reflecting higher volumes shipped.

Selling, general and administration expense

SG&A expenses were \$3.9 million for Q4 2018, a decrease of \$0.4 million compared to \$4.3 million for Q4 2017, primarily due to a \$0.7 million decrease in professional fees incurred in connection with the IPO and a \$0.3 million decrease in legal fees incurred on a damage claim we were pursuing against one of our equipment suppliers, partially offset by a \$0.7 million increase in professional fees and travel expenses primarily related to exploration of new business opportunities.

Amortization expense

Amortization expense was \$7.2 million for Q4 2018, an increase of \$1.9 million compared to \$5.3 million for Q4 2017, reflecting the commencement of amortization for property, plant and equipment related to the commencement of commercial production at the Entwistle Facility at the end of Q2 2018. In addition, amortization expense for Q4 2018 included those related to the recently acquired Aliceville Facility. Construction in progress for the Smithers Facility was not subject to amortization until the assets were available for use at the beginning of Fiscal 2019.

Finance (income) cost

Finance income was \$1.7 million for Q4 2018, compared to finance cost of \$6.1 million for Q4 2017. This change was primarily due to a \$3.3 million increase in fair value gain on foreign exchange derivative contracts, a \$3.2 million reduction in interest on shareholders' debentures, which were converted into Common Shares upon the closing of the IPO, a \$1.2 million increase in unrealized gain on foreign exchange, and a \$0.5 million decrease in amortization of deferred financing fees, partially offset by a \$1.0 million increase in interest on our credit facilities.

Other income

Other income was \$1.6 million for Q4 2018, an increase of \$1.3 million compared to \$0.3 million for Q4 2017, primarily due to a \$0.6 million net gain from the disposal of capital assets, including that of our Quesnel facility, during Q4 2018.

Income taxes

Income tax expense was \$1.6 million for Q4 2018, an increase of \$1.4 million compared to \$0.2 million for Q4 2017. The increase in income tax expense was primarily attributable to an increase in net profit before taxes in Q4 2018.

Net profit

Net profit and comprehensive income was \$7.5 million in Q4 2018, an increase of \$7.4 million compared to \$0.1 million in Q4 2017. This variance was primarily attributable to a \$7.9 million decrease in finance cost, partially offset by a \$1.5 million increase in income tax expense as discussed above.

*Adjusted Gross Margin Percentage**

<i>(In thousands except per MT amounts)</i>	Q4 2018 13 weeks	Q4 2017 13 weeks	Q4 2018 vs. Q4 2017
Profit before finance costs and other income (expenses)	\$ 5,732	\$ 6,029	\$ (297)
Selling, general and administration	3,933	4,347	(414)
Amortization	7,220	5,280	1,940
Equity earnings in HPLP	152	255	(103)
Non-controlling interests	(375)	20	(395)
Adjusted Gross Margin	\$ 16,662	\$ 15,931	\$ 731
Adjusted Gross Margin per MT	\$ 35.23	\$ 47.70	\$ (11.32)
Adjusted Gross Margin Percentage	16.1%	21.8%	(5.7%)

* See "Non-IFRS Measures".

Adjusted Gross Margin Percentage was 16.1% for Q4 2018 (\$35.23/MT), a decrease from 21.8% in Q4 2017 (\$47.70/MT). The decrease was primarily due to higher production costs associated with start-up at the Entwistle Facility, offset by higher revenue from higher sales volume as discussed above.

*Adjusted EBITDA**

<i>(In thousands except per MT amounts)</i>	Q4 2018 13 weeks	Q4 2017 13 weeks	Q4 2018 vs. Q4 2017
MT of industrial wood pellets sold	473	334	139
Net profit (loss)	\$ 7,456	\$ 104	\$ 7,352
Income tax expense	1,643	163	1,480
Finance costs excluding shareholder debentures ⁽¹⁾	(1,885)	2,667	(4,552)
Finance costs on shareholder debentures	-	3,241	(3,241)
Amortization of equipment and intangible assets ⁽²⁾	7,054	5,089	1,965
EBITDA	\$ 14,268	\$ 11,264	\$ 3,004
<i>EBITDA Adjustments</i>			
Stock-based compensation expense (recovery)	(833)	172	(1,005)
Loss (gain) on disposal of PP&E ⁽³⁾	(535)	478	(1,013)
Plant curtailment costs	80	53	27
Loss on conversion of shareholder debentures	-	-	-
Revaluation of Class B and Class D common shares	-	(424)	424
Other items ⁽⁴⁾	850	1,232	(382)
Total Adjustments	(438)	1,511	(1,949)
Adjusted EBITDA	\$ 13,830	\$ 12,775	\$ 1,055
Adjusted EBITDA per MT	\$ 29.24	\$ 38.25	\$ (8.05)

* See "Non-IFRS Measures".

Notes:

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

Adjusted EBITDA for Q4 2018 was \$1.1 million higher than Q4 2017. Increased revenue was partially offset by higher production costs associated with start-up at the Entwistle Facility as discussed above. In addition, constant heavy precipitation during Q4 2018 impacted loading volumes at port terminals in British Columbia.

Free Cash Flow*

<i>(In thousands)</i>	Q4 2018 13 weeks	Q4 2017 13 weeks	Q4 2018 vs. Q4 2017
Net profit (loss)	\$ 7,456	\$ 104	\$ 7,352
Income tax expense	1,643	163	1,480
Finance costs excluding shareholder debentures ⁽¹⁾	(1,885)	2,667	(4,552)
Finance costs (income) on shareholder debentures	-	3,241	(3,241)
Amortization of equipment and intangible assets ⁽²⁾	7,054	5,089	1,965
EBITDA	\$ 14,268	\$ 11,264	\$ 3,004
Stock-based compensation expense	(833)	172	(1,005)
Loss (gain) on disposal of PP&E ⁽³⁾	(535)	478	(1,013)
Plant curtailment costs	80	53	27
Loss on conversion of shareholder debentures	-	-	-
Revaluation of Class B and Class D shares	-	(424)	424
Other items ⁽⁴⁾	850	1,232	(382)
Adjusted EBITDA ⁽⁵⁾	\$ 13,830	\$ 12,775	\$ 1,055
Maintenance capital expenditures ⁽⁶⁾	(2,610)	(4,549)	1,939
Interest and finance costs, net ⁽⁷⁾	(3,006)	(2,025)	(981)
Cash taxes paid ⁽⁸⁾	-	-	-
Mandatory amortization ⁽⁹⁾	-	(1,600)	1,600
Free Cash Flow	\$ 8,214	\$ 4,601	\$ 3,613

* See “Non-IFRS Measures”.

Notes:

- (1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
- (2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest’s share of LPLP and PWRHLLC.
- (3) Loss (gain) on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest’s share of LPLP and SPLP.
- (4) Other items include professional fees incurred in connection with the Secondary Offering in Q2 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) There was no mandatory amortization for Q4 2018. Refer to the section entitled “Material Contracts – Credit Agreement” in the AIF for details of our credit facilities.

Free cash flow increased \$3.6 million from \$4.6 million in Q4 2017 to \$8.2 million in Q4 2018. The increase is primarily due to a decrease in maintenance capital expenditures of \$1.9 million, a decrease in mandatory amortization of term debt of \$1.6 million, and an increase in Adjusted EBITDA of \$1.1 million, partially offset by an increase of \$1.0 million in net interest and finance costs.

Analysis of Results for Fiscal 2018 to Fiscal 2017

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

<i>(In thousands)</i>	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2018 vs. Fiscal 2017
MT of industrial wood pellets sold	1,607	1,373	234
Revenue	\$ 347,440	\$ 292,727	\$ 54,713
Costs and expenses			
Production	233,107	188,414	44,693
Distribution	46,899	38,421	8,478
Selling, general and administration	22,789	15,268	7,521
Amortization	24,678	21,819	2,859
	327,473	263,922	63,551
Profit before finance costs and other expenses	19,967	28,805	(8,838)
Finance cost	3,042	24,251	(21,208)
Other (income) expense	15,638	8,912	6,726
	18,680	33,163	(14,483)
Net income (loss) before income taxes	1,287	(4,358)	5,645
Income tax expense (recovery)			
Current	-	-	-
Deferred	(1,415)	526	(1,941)
Income Taxes	(1,415)	526	(1,941)
Net profit (loss)	\$ 2,702	\$ (4,884)	\$ 7,586

Revenue

Revenue for Fiscal 2018 totaled \$347.4 million, an increase of \$54.7 million, or 18.7%, compared to \$292.7 million for Fiscal 2017. This increase was attributable to higher sales volume and an increase in the average sales price per MT.

Production cost

Production costs were \$233.1 million for Fiscal 2018, an increase of \$44.7 million from \$188.4 million for Fiscal 2017, primarily due to an increase in sales volume and higher fibre and cash conversion costs. High repairs and maintenance expenditures at the Entwistle Facility related to initial delivery fibre quality issues and lower than projected production levels due to CN unit train service failures and delays in construction of the storage silo (which was completed in Q4 2018) increased rail and cash conversion costs. In addition, the aforementioned higher fibre and cash conversion costs were incurred as we managed facilities impacted by forest fires and related rail disruptions in Q3 2018.

Distribution cost

Distribution costs were \$46.9 million for Fiscal 2018, an increase of \$8.5 million compared to \$38.4 million for Fiscal 2017, primarily due to an increase in volume sold.

Selling, general and administration expense

SG&A expenses increased \$7.5 million from \$15.3 million for Fiscal 2017 to \$22.8 million for Fiscal 2018. SG&A expenses in Fiscal 2018 include certain professional fees incurred in connection with the IPO and the Secondary Offering of \$1.2 million and \$0.3 million, respectively, and \$1.2 million of legal fees related to a damage claim we are pursuing against one of our equipment suppliers. In Fiscal 2017, legal fees related to this claim were \$1.0 million. In addition, in Fiscal 2017, \$0.4 million of professional fees related to the Entwistle Facility previously incurred were capitalised upon board approval of the project. Excluding the above items, SG&A expenses increased \$5.4 million from Fiscal 2017 to Fiscal 2018. Of this \$5.4 million increase, \$4.3 million relates

to incremental stock-based compensation expense in Fiscal 2018, and \$1.1 million relates to legal fees, professional fees, and travel expenses related to the acquisition of the Aliceville Facility.

Amortization expense

Amortization expense increased by \$2.9 million from \$21.8 million in Fiscal 2017 to \$24.7 million in Fiscal 2018. During Fiscal 2018, the majority of additions to property, plant and equipment related to construction in progress for the Entwistle and Smithers Facilities. Construction in progress is not subject to amortization until the assets are available for use. The increase in amortization is primarily due to the commencement of amortization for property, plant and equipment related to the commencement of commercial production for the Entwistle Facility at the end of Q2 2018. In addition, amortization expense for Fiscal 2018 included those related to the Aliceville Facility acquired during Q4 2018.

Finance cost

Finance cost was \$3.0 million in Fiscal 2018, a decrease of \$21.2 million from \$24.2 million in Fiscal 2017. This decrease was primarily due to a \$12.4 million reduction in interest on shareholders' debentures, which were converted into Common Shares upon the closing of the IPO, a \$7.6 million fluctuation in the fair value of foreign exchange derivative contracts, a \$1.5 million increase in unrealized gain on foreign exchange, and a \$0.4 million decrease in amortization of deferred financing fees, partially offset by an \$1.4 million increase in interest on credit facilities.

Other expense

Other expense was \$15.6 million in Fiscal 2018, an increase of \$6.7 million from \$8.9 million in Fiscal 2017. This increase was primarily due to a \$21.9 million loss on conversion of shareholders' debentures in Fiscal 2018, partially offset by a \$9.2 million fluctuation related to revaluation of Class B and Class D common shares, which were converted upon pre-closing capital changes completed in connection with the IPO, a \$4.4 million decrease in curtailment losses recognised on our Quesnel facility, and a \$1.4 million fluctuation in gains and losses on disposal of property, plant and equipment.

Income taxes

Income tax recovery was \$1.4 million in Fiscal 2018. In Fiscal 2017, income tax expense was \$0.5 million. The change was primarily attributable to deferred income tax recovery on the loss on conversion of shareholders' debentures into Common Shares upon closing of the IPO.

Net profit (loss)

Net profit was \$2.7 million in Fiscal 2018, compared to a net loss of \$4.9 million in Fiscal 2017. The change was primarily attributable to a \$21.2 million decrease in finance costs and an \$1.9 million net increase in income tax recovery, partially offset by \$8.8 million decrease in profit before finance costs and other expenses and a \$6.7 million increase in other expenses as discussed above.

Adjusted Gross Margin Percentage*

<u>(In thousands except per MT amounts)</u>	<u>Fiscal 2018</u> <u>52 weeks</u>	<u>Fiscal 2017</u> <u>52 weeks</u>	<u>Fiscal 2018</u> <u>vs. Fiscal 2017</u>
Profit before finance costs and other income (expenses)	\$ 19,967	\$ 28,805	\$ (8,838)
Selling, general and administration	22,789	15,268	7,521
Amortization	24,678	21,819	2,859
Equity earnings in HPLP	1,058	1,381	(323)
Non-controlling interests	(852)	(353)	(499)
Adjusted Gross Margin	\$ 67,640	\$ 66,920	\$ 720
Adjusted Gross Margin per MT**	\$ 42.49	\$ 48.74	\$ (6.25)
Adjusted Gross Margin Percentage	19.5%	22.9%	(3.4%)

* See "Non-IFRS Measures".

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

Adjusted Gross Margin Percentage was 19.5% for Fiscal 2018 (\$42.49/MT), down from 22.9% in Fiscal 2017 (\$48.74/MT), primarily due to higher production costs associated with start-up at the Entwistle Facility, higher fibre costs, higher fibre costs for incremental production volume from our legacy production facilities as they increased production to offset the shortfall at the Entwistle Facility during the ramp-up stage, partially offset by higher revenue from an increase in the average sales price per MT as discussed above.

Adjusted EBITDA*

<i>(In thousands except per MT amounts)</i>	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2018 vs. Fiscal 2017
MT of industrial wood pellets sold	1,607	1,373	234
Net profit (loss)	\$ 2,702	\$ (4,884)	\$ 7,586
Income tax expense (recovery)	(1,415)	526	(1,941)
Finance costs excluding shareholder debentures ⁽¹⁾	3,279	11,592	(8,313)
Finance costs on shareholder debentures	-	12,359	(12,359)
Amortization of equipment and intangible assets ⁽²⁾	24,244	21,395	2,849
EBITDA	\$ 28,810	\$ 40,988	\$ (12,178)
<i>EBITDA Adjustments</i>			
Stock-based compensation expense	4,266	237	4,029
Loss (gain) on disposal of PP&E ⁽³⁾	(362)	1,049	(1,411)
Plant curtailment costs	235	4,626	(4,391)
Loss on conversion of shareholder debentures	21,881	-	21,881
Revaluation of Class B and Class D common shares	(3,563)	5,601	(9,164)
Other items ⁽⁴⁾	3,835	3,620	215
Total Adjustments	26,292	9,110	17,182
Adjusted EBITDA	\$ 55,102	\$ 56,121	\$ (1,019)
Adjusted EBITDA per MT**	\$ 34.61	\$ 40.87	\$ (6.26)

* See "Non-IFRS Measures".

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

Notes:

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

Adjusted EBITDA was \$55.1 million in Fiscal 2018, a decrease of \$1.0 million from \$56.1 million in Fiscal 2017. Increased revenue was partially offset by higher production costs associated with start-up at the Entwistle Facility as discussed above.

Free Cash Flow*

<i>(In thousands)</i>	Fiscal 2018	Fiscal 2017	Fiscal 2018
	52 weeks	52 weeks	vs. Fiscal 2017
Net profit (loss)	\$ 2,702	\$ (4,884)	\$ 7,586
Income tax expense (recovery)	(1,415)	526	(1,941)
Finance costs excluding shareholder debentures ⁽¹⁾	3,279	11,592	(8,313)
Finance costs (income) on shareholder debentures	-	12,359	(12,359)
Amortization of equipment and intangible assets ⁽²⁾	24,244	21,395	2,849
EBITDA	\$ 28,810	\$ 40,988	\$ (12,178)
Stock-based compensation expense	4,266	237	4,029
Loss on disposal of PP&E ⁽³⁾	(362)	1,049	(1,411)
Plant curtailment costs	235	4,626	(4,391)
Loss on conversion of shareholder debentures	21,881	-	21,881
Revaluation of Class B and Class D shares	(3,563)	5,601	(9,164)
Other items ⁽⁴⁾	3,835	3,620	215
Adjusted EBITDA ⁽⁵⁾	\$ 55,102	\$ 56,121	\$ (1,019)
Maintenance capital expenditures ⁽⁶⁾	(8,059)	(9,040)	981
Interest and finance costs, net ⁽⁷⁾	(8,851)	(7,425)	(1,426)
Cash taxes paid ⁽⁸⁾	-	-	-
Mandatory amortization ⁽⁹⁾	(6,000)	(1,600)	(4,400)
Free Cash Flow	\$ 32,192	\$ 38,056	\$ (5,864)

* See “Non-IFRS Measures”.

Notes:

- (1) Finance cost excluding shareholder debentures excludes realized (gain) loss on derivatives and foreign exchange.
- (2) Amortization of PP&E includes our share of HPLP and excludes the non-controlling interest’s share of LPLP and PRWHLLC.
- (3) Loss on disposal of PP&E includes our share of HPLP and excludes the non-controlling interest’s share of LPLP and SPLP.
- (4) Other items include professional fees incurred in connection with the IPO and Secondary Offering in Fiscal 2018 of \$1.2 million and \$0.3 million, respectively, legal fees related to pursuing a damage claim, and deduction for the non-controlling interest’s share of LPLP, 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) There was no mandatory amortization for the first three quarters of Fiscal 2017. Refer to the section entitled “Material Contracts – Credit Agreement” in the AIF for details of our credit facilities.

Free cash flow was \$32.2 million in Fiscal 2018, a decrease of \$5.9 million from \$38.1 million in Fiscal 2017. This decrease was primarily due to an increase in mandatory amortization of our term debt of \$4.4 million, a decrease in Adjusted EBITDA of \$1.0 million, and an increase in net interest and finance costs of \$1.4 million, partially offset by a decrease in maintenance capital expenditures of \$1.0 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⁾

<i>(In thousands except per share amounts)</i>	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks
MT of industrial wood pellets sold	473	421	385	328	334	387	332	320
Revenue	\$ 103,728	\$ 87,606	\$ 85,084	\$ 71,022	\$ 72,958	\$ 82,366	\$ 69,556	\$ 67,847
Costs and expenses								
Production	73,472	57,222	53,893	48,520	47,377	51,628	44,863	44,546
Distribution	13,371	12,360	13,138	8,030	9,925	11,568	7,868	9,060
Selling, general and administration	3,933	5,374	4,265	9,217	4,347	4,222	3,493	3,206
Amortization	7,220	6,719	5,381	5,358	5,280	5,365	5,570	5,604
	97,996	81,675	76,677	71,125	66,929	72,783	61,794	62,416
Profit (loss) before finance costs and other (income) expenses	5,732	5,931	8,407	(103)	6,029	9,583	7,762	5,431
Finance cost (income) ⁽²⁾	(1,741)	4,360	41	382	6,120	6,469	5,835	5,827
Other (income) expense ⁽³⁾⁽⁴⁾	(1,626)	(399)	(320)	17,983	(358)	9,146	131	(7)
	(3,367)	3,961	(279)	18,365	5,762	15,615	5,966	5,820
Net profit (loss) before income taxes	9,099	1,970	8,686	(18,468)	267	(6,032)	1,796	(389)
Income tax expense (recovery)								
Current	-	-	-	-	-	-	-	-
Deferred ⁽⁵⁾	1,643	454	(2,182)	5,694	(163)	2	(469)	104
Income Taxes	1,643	454	(2,182)	5,694	(163)	2	(469)	104
Net profit (loss)	\$ 7,456	\$ 1,516	\$ 6,504	\$ (12,774)	\$ 104	\$ (6,030)	\$ 1,327	\$ (285)
Net profit (loss) attributable to:								
Owners of the Company	7,081	1,184	6,218	(12,633)	124	(6,371)	1,234	(224)
Non-controlling interests	375	332	286	(141)	(20)	341	93	(61)
Net profit (loss)	\$ 7,456	\$ 1,516	\$ 6,504	\$ (12,774)	\$ 104	\$ (6,030)	\$ 1,327	\$ (285)
Net profit (loss) attributable to owners								
Net income (loss) attributable to owners	7,081	1,184	6,218	(12,633)	124	(6,371)	1,234	(224)
Cumulative preferred dividends	-	-	-	(104)	(409)	(309)	(309)	(310)
	\$ 7,081	\$ 1,184	\$ 6,218	\$ (12,737)	\$ (285)	\$ (6,680)	\$ 925	\$ (534)
Net profit (loss) per share attributable to owners								
Basic and diluted	\$ 0.22	\$ 0.04	\$ 0.19	\$ (0.58)	\$ (0.04)	\$ (0.97)	\$ 0.13	\$ (0.08)

Notes:

- 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.
- In Q4 2016, a \$21.3 million (before-tax) gain was recognised on the modification of terms of shareholders' debentures.
- Class B and Class D common shares, which are classified as liabilities are subject to fair value adjustments. Revaluation gains and losses were recognised as follows: in the third quarter of Fiscal 2017, a loss of \$6.0 million (before-tax), and in the fourth quarter of Fiscal 2016, a loss of \$10.3 million (before-tax). Upon closing of the IPO in the first quarter of Fiscal 2018, a gain of \$3.6 million (before-tax) was recognised on conversion of Class B and Class D common shares.
- In the first quarter of Fiscal 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 December 28, 2018, our credit facilities consisted of \$200 million of term debt, \$130 million of committed delayed draw, and \$50 million of committed revolver. All facilities mature on December 13, 2022.

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

During the 13-week and 52-week periods ended December 28, 2018 we made scheduled repayments of nil and \$6 million, respectively, on our term loan (13-week and 52-week periods ended December 29, 2017 – \$1.6 million). 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 \$50.5 million delayed draw was in in a USD BA loan at 8.00%. At December 29, 2017, the \$180 million term loan and the revolver loan were in Canadian dollar Prime loans at 5.70% and the \$22 million delayed draw term loan was in a Canadian dollar BA loan at 4.86%. At December 28, 2018, we had issued letters of credit totaling \$1.4 million (December 29, 2017 - \$0.5 million). The delayed draw has been designated as a hedge against the investment in our U.S. operations and unrealized foreign exchange losses of \$1.5 million (2017 - nil) arising on its revaluation were recognized in foreign currency translation differences in other comprehensive income for the 52-week period ended December 28, 2018.

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, 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 we carry a NMTC Receivable from Westervelt of an equal amount. As at December 28, 2018 and December 29, 2017, the Company was in compliance with all debt covenants.

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

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 Q4 2018 compared to Q4 2017

<i>(In thousands)</i>	Q4 2018 13 weeks	Q4 2017 13 weeks	Q4 2018 vs. Q4 2017
Cash flow from operations before net change in non-cash working capital	\$ 13,064	\$ 11,305	\$ 1,759
Net change in non-cash operating working capital	5,498	(15,302)	20,800
Financing activities	61,110	41,165	19,945
Investing activities	(68,808)	(29,786)	(39,022)
Other	(112)	(69)	(43)
Change in cash	10,752	7,313	3,439
Cash at beginning of period	7,276	11,595	(4,319)
Cash at end of period	\$ 18,028	\$ 18,908	\$ (880)

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 \$1.8 million to \$13.1 million for Q4 2018 from \$11.3 million for Q4 2017, primarily due to higher revenue in Q4 2018 compared to Q4 2017.

Net change in non-cash working capital

The \$5.5 million increase in non-cash working capital in Q4 2018 was primarily comprised of an \$8.3 million increase in accounts payable and accrued liabilities, a \$1.9 million decrease in inventory, and a \$0.6 million decrease in other current assets, offset by a \$3.4 million increase in accounts receivable and a \$1.9 million decrease in other current liabilities. The \$15.3 million decrease in non-cash working capital in Q4 2017 reflected an increase in accounts receivable related to the timing of certain shipments at period-end.

Financing activities

In Q4 2018, financing activities provided \$61.1 million of cash, primarily from \$65.4 million in net credit facilities drawn and \$1.5 million net investment from non-controlling interest, partially offset by \$5.0 million in dividends paid, and \$0.3 million in finance costs paid. In Q4 2017, financing activities provided \$41.2 million, primarily from the amendment of our credit facilities to fund the construction of the Entwistle and Smithers Facilities.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In Q4 2018, cash used for the acquisition of the Aliceville Facility was \$47.6 million and cash used for property, plant and equipment excluding the acquisition of the Aliceville Facility was \$23.0 million. In Q4 2017, cash used for property, plant and equipment was \$29.8 million.

Analysis of cash flows for Fiscal 2018 compared to Fiscal 2017

<i>(In thousands)</i>	Fiscal 2018 52 weeks	Fiscal 2017 52 weeks	Fiscal 2018 vs. Fiscal 2017
Cash flow from operations before net change in non-cash working capital	\$ 50,756	\$ 51,128	\$ (372)
Net change in non-cash operating working capital	7,017	(20,183)	27,200
Financing activities	59,930	48,812	11,118
Investing activities	(118,797)	(72,682)	(46,115)
Other	214	(279)	493
Change in cash	(880)	6,796	(7,676)
Cash at beginning of year	18,908	12,112	6,796
Cash at end of year	\$ 18,028	\$ 18,908	\$ (880)

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

Cash flow from operations before net change in non-cash working capital decreased by \$0.3 million to \$50.8 million for Fiscal 2018 from \$51.1 million for Fiscal 2017, reflecting the higher cash costs in production in Fiscal 2018 compared to Fiscal 2017.

Net change in non-cash working capital

The \$7.0 million increase in non-cash working capital in Fiscal 2018 was primarily comprised of a \$13.0 million increase in accounts payable and accrued liabilities and a \$7.1 million decrease in accounts receivable, partially offset by a \$14.0 million decrease in other current liabilities. The \$20.2 million decrease in non-cash working capital in Fiscal 2017 was primarily comprised of a \$20.7 million decrease in accounts payable and accrued liabilities and an \$16.5 million increase in accounts receivable, partially offset by a \$14.2 million increase in other current liabilities, and an \$2.7 million decrease in inventory.

Financing activities

In Fiscal 2018, financing activities provided \$59.9 million of cash, primarily from net proceeds of the IPO of \$64.6 million, a net draw of credit facilities of \$40.9 million, and investment from non-controlling interests of \$5.9 million, offset by repayment of shareholders' debentures of \$28.6 million, dividends paid of \$12.9 million, and finance costs paid of \$8.9 million. In Fiscal 2017, financing activities provided \$48.8 million primarily from \$54.9 million in net draw of credit facilities and investment from non-controlling interests of \$2.4 million, partially offset by \$8.3 million in finance costs paid.

Investing activities

Cash used for investing activities relates primarily to the acquisition and construction of property, plant and equipment. In Fiscal 2018, cash used for property, plant and equipment excluding the acquisition of the Aliceville Facility was \$73.1 million, an \$1.0 million increase from \$72.1 million in Fiscal 2017. In Fiscal 2018, cash used for the acquisition of the Aliceville Facility was \$47.6 million.

OUTLOOK

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

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

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

We expect to see continued strong execution in the strategic growth plan of the business in 2019. The Aliceville and Smithers Facilities added in Q4 2018 will contribute to 2019 growth as they ramp-up production.

Sawmill curtailments that have been announced by some British Columbia forest products companies will result in a reduction in the availability of lower cost sawmill residuals (sawdust and shavings). As a result, we will procure a greater proportion of higher cost harvest residuals (pulp logs and bush grind). We expect the impact to be mainly limited to some of our fibre sourcing at the Burns Lake and Meadowbank Facilities.

The financial impact of the recent temporary suspension of operations at the Entwistle Facility is difficult to estimate at this early date. We will resume reduced production of wood pellets from the Entwistle Facility in March 2019 through the use of dry fibre. As we obtain further information regarding the timeline for recommencement of the dryer area of the facility, we will be in a better position to provide an update on our outlook for 2019.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes the contractual obligations and off-balance sheet arrangements as at December 28, 2018 for each of the next five fiscal years and thereafter:

<i>(In millions)</i>	2019	2020	2021	2022	2023	Thereafter	Total
Revolver loan	\$ 18.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18.5
Term loan	9.5	14.5	19.0	151.0	-	-	194.0
Delayed draw	-	3.0	4.8	42.7	-	-	50.5
Finance lease	1.0	0.8	0.2	-	-	-	2.0
Operating lease	10.7	9.2	7.4	5.0	4.6	28.8	65.7
Total contractual obligations	\$ 39.7	\$ 27.5	\$ 31.4	\$ 198.7	\$ 4.6	\$ 28.8	\$ 330.7

The obligations under the senior credit facilities are discussed in the “Liquidity and Capital Resources” section of this 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 December 28, 2018 was \$18.0 million (December 29, 2017 - \$18.9 million).

We manage our credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over \$5.0 million. The significant majority of our sales are contracted with large utility customers. The accounts receivable balance at December 28, 2018 was \$43.0 million (December 29, 2017 - \$41.3 million).

Liquidity risk

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

At December 28, 2018, we had available liquidity of \$49.1 million (December 29, 2017 - \$44.3 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 December 28, 2018, our ratio of net debt to last twelve month Adjusted EBITDA was 4.51 times. This ratio was higher than our target of 3.25 times 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.

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

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

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

We are subject to certain financial covenants in our debt obligations. Refer to Note 9 to the Consolidated Financial Statements for details. Our strategy is to ensure we remain in compliance with all of our existing covenants so as to ensure continuous access to required debt to fund growth. We review results and forecasts to monitor our compliance.

Disclosure Controls & Procedures and Internal Control Over Financial Reporting

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

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

Procedures performed in 2018 to test the design and operating effectiveness of internal controls over financial reporting confirmed that controls are adequate and provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

Changes in Internal Control Over Financial Reporting

There were no changes to our disclosure controls and procedures and internal control over financial reporting during Q4 2018.

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

Critical Accounting Estimates and Judgments

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

The most significant accounting judgments and estimates that we have made in the preparation of the Consolidated Financial Statements are consistent with that as described in the Consolidated Financial Statements.

Significant Accounting Standards Adopted and Issued But Not Effective

Accounting standards adopted in the first quarter of Fiscal 2018

IFRS 15 — Revenue from Contracts with Customers

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

IFRS 9 — Financial Instruments

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

Accounting standards adopted in the first quarter of Fiscal 2019

IFRS 16 — Leases

IFRS 16 *Leases* was issued in January 2016 by the IASB as a replacement for IAS 17 *Leases* 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 recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. 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 recognized 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 January 1, 2019, 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.

Based on lease data as at December 28, 2018, IFRS 16 is expected to result in an increase to right-to-use assets and lease liabilities of approximately \$48 million. We are finalizing our analysis and calculations in the first quarter of Fiscal 2019 and will provide all the required disclosures and amounts when filing our condensed consolidated interim financial statements in the first quarter of Fiscal 2019.

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.

Controlling entity

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

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

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

Minority shareholder in the Company

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

During Q4 2018, we sold the assets of our Quesnel facility to the controlling shareholder of one of our minority shareholders, Swaan Holdings Inc., and a related person of such minority shareholder, at negotiated amounts.

See Note 23 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 February 21, 2019, we had 33,003,713 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of February 21, 2019, an aggregate of 1,744,491 options to acquire Common Shares and 271,921 restricted share units representing the right to Common Shares are outstanding.

SUBSEQUENT EVENT

On December 29, 2018, we commenced commercial production at the Smithers Facility. Additional capital costs will be incurred at a later date.

On January 18, 2019, we reached a settlement on a damage claim we were pursuing against one of our equipment suppliers for gross proceeds of approximately \$7.5 million in our favour. The payment is expected to be received in the first quarter of Fiscal 2019.

On February 11, 2019, Pinnacle temporarily suspended operations at the Entwistle Facility due to a fire and explosion that occurred at the dryer area of the facility. The Company is currently investigating the cause of the incident and developing action plans to restart the facility. The rest of the Entwistle Facility sustained little damage. We are working with our customers to mitigate the impact to the extent possible under the circumstances. OH&S released control of the site back to the Company on February 20, 2019.

On February 21, 2019, we declared a cash dividend of \$0.15 per Common Share to shareholders of record as at March 5, 2019, to be paid on March 14, 2019.

Additional Information

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

As at and for the years ended
December 28, 2018 and December 29,
2017

Consolidated Financial Statements



Pinnacle.
RENEWABLE ENERGY INC.
(Formerly Pinnacle Renewable Holdings Inc.)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings Inc.)

Opinion

We have audited the consolidated financial statements of Pinnacle Renewable Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 28, 2018 and December 29, 2017;
- the consolidated statements of profit (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 28, 2018 and end of December 29, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to or audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. Other information comprises the information in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada
February 21, 2019

**PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)**

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars unless otherwise stated)

As at	Note	December 28, 2018	December 29, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 18,028	\$ 18,908
Accounts receivable	4	43,017	41,253
Inventory	5	24,531	17,709
Other current assets		5,846	3,392
		91,422	81,262
Property, plant and equipment	6	330,899	238,196
Investment in Houston Pellet Limited Partnership	7	9,374	8,916
Receivable against NMTC debt	10	84,877	-
Other long-term assets		2,500	51
Deferred income taxes	19	149	-
Goodwill and intangible assets	8	108,073	105,220
Total assets		\$ 627,294	\$ 433,645
Liabilities and Shareholders' Equity			
Current liabilities			
Revolver loan	9	\$ 18,450	\$ 22,000
Accounts payable and accrued liabilities		43,537	35,653
Current portion of long-term debt	9	9,500	6,000
Current portion of NMTC debt	10	1,515	-
Other current liabilities		3,642	15,977
		76,644	79,630
Long-term debt	9	232,425	190,813
NMTC debt	10	84,877	-
Shareholders' debentures payable	11	-	88,881
Common and preferred shares classified as liabilities	12	-	25,992
Other long-term liabilities	13	4,335	3,457
Deferred income taxes	19	-	9,668
		398,281	398,441
Shareholders' Equity			
Common shares	14	273,966	29,500
Preferred shares		-	28,005
Contributed surplus		3,556	4,332
Equity component of convertible debentures		-	35,213
Accumulated Other Comprehensive Income		-	-
Deficit		(86,437)	(75,419)
Total equity attributable to owners of the Company		191,085	21,631
Non-controlling interest	15	37,928	13,573
Total equity		229,013	35,204
Total liabilities and shareholders' equity		\$ 627,294	\$ 433,645

Contingencies (note 28)

Subsequent events (note 31)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin

Director, Gregory Baylin

s/Hugh MacDiarmid

Director, Hugh MacDiarmid

**PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)**

Consolidated Statements of Profit (Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	Note	December 28, 2018		December 29, 2017	
Revenue	29	\$	347,440	\$	292,727
Costs and expenses					
Production			233,107		188,414
Distribution			46,899		38,421
Selling, general and administration			22,789		15,268
Amortization of equipment and intangible assets			24,678		21,819
			327,473		263,922
Profit before undernoted items			19,967		28,805
Equity earnings in Houston Pellet Limited Partnership	7		(1,058)		(1,381)
(Gain) loss on disposal of property, plant and equipment			(382)		1,049
(Gain) loss on class B&D common shares	12		(3,563)		5,601
Loss on conversion of debentures into shares	11		21,881		-
Finance costs excluding shareholder debentures	18		3,042		11,892
Finance costs on shareholder debentures	18		-		12,359
Other income			(1,474)		(983)
Plant impairment loss and curtailment costs			234		4,626
			18,680		33,163
Net profit (loss) before income taxes			1,287		(4,358)
Income tax (recovery) expense					
Deferred	19		(1,415)		526
			(1,415)		526
Net profit (loss)		\$	2,702	\$	(4,884)
Net profit (loss) attributable to:					
Owners of the Company		\$	1,850	\$	(5,237)
Non-controlling interests	15		852		353
		\$	2,702	\$	(4,884)
Net profit (loss) per share attributable to owners (Basic and diluted):	20	\$	0.05	\$	(0.22)
Weighted average of number of shares outstanding (thousands):			32,974		29,318

See accompanying notes to the consolidated financial statements

**PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)**

Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	Note	December 28, 2018	December 29, 2017
Net profit (loss)		\$ 2,702	\$ (4,884)
Other comprehensive income (loss) net of taxes:			
Items that may be recycled through net income:			
Foreign exchange translation of foreign operations, net of tax	9	-	-
Comprehensive income (loss) for the year		\$ 2,702	\$ (4,884)
Comprehensive income (loss) attributable to:			
Owners of the Company		\$ 1,850	\$ (5,237)
Non-controlling interests		852	353
		\$ 2,702	\$ (4,884)



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars unless otherwise stated)

	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures - Equity Component	Deficit	Non- controlling Interest	Accumulated Other Comprehensive Income	Total Equity
Balance, December 30, 2016	\$ -	\$ 29,500	\$ 28,005	\$ 4,095	\$ 35,213	\$ (70,182)	\$ 11,320	\$ -	\$ 37,951
Net profit (loss) and comprehensive income (loss) for the year	-	-	-	-	-	(5,237)	353	-	(4,884)
Stock-based compensation (note 17)	-	-	-	237	-	-	-	-	237
Distribution to non-controlling interest	-	-	-	-	-	-	(500)	-	(500)
Investment by non-controlling interest	-	-	-	-	-	-	2,400	-	2,400
Balance, December 29, 2017	\$ -	\$ 29,500	\$ 28,005	\$ 4,332	\$ 35,213	\$ (75,419)	\$ 13,573	\$ -	\$ 35,204
Balance, December 29, 2017	\$ -	\$ 29,500	\$ 28,005	\$ 4,332	\$ 35,213	\$ (75,419)	\$ 13,573	\$ -	\$ 35,204
Net profit (loss) for the year	-	-	-	-	-	1,850	852	-	2,702
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	(3,987)	-	-	-	-	-	-	-	(3,987)
Stock options exercised during the year	1,115	-	-	(464)	-	-	-	-	651
Stock-based compensation (note 17)	-	-	-	1,285	-	-	-	-	1,285
Dividends declared during the year	-	-	-	-	-	(12,868)	-	-	(12,868)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	(1,075)	-	(1,075)
Investment by non-controlling interests	-	-	-	-	-	-	24,578	-	24,578
Balance, December 28, 2018	\$ 273,966	\$ -	\$ -	\$ 3,556	\$ -	\$ (86,437)	\$ 37,928	\$ -	\$ 229,013

See accompanying notes to the consolidated financial statements

**PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)**

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars unless otherwise stated)

Fiscal year ended	Note	December 28, 2018	December 29, 2017
Cash provided by (used in)			
Operating activities			
Net profit (loss)		\$ 2,702	\$ (4,884)
Financing costs, net	18	3,042	24,251
Items not involving cash:			
Loss on conversion of debentures into shares	11	21,881	-
Amortization of property, plant and equipment	6	21,717	18,904
Amortization of intangible assets	8	2,961	2,915
Equity earnings in Houston Pellet Limited Partnership	7	(1,058)	(1,381)
(Gain) loss on disposal of equipment		(382)	1,049
Stock-based compensation	17	4,266	237
Inventory write (up) down		(319)	-
Impairment loss on Quesnel Facility		-	3,245
(Gain) loss on Class B and D common shares	12	(3,563)	5,601
Deferred income tax (recovery) expense	19	(1,399)	526
Realized (gain) loss on derivatives		308	(10)
Distributions from Houston Pellet Limited Partnership		600	675
		50,756	51,128
Net change in non-cash operating working capital	21	7,017	(20,183)
		57,773	30,945
Financing activities			
Drawings on revolver loan	9	24,450	14,900
Repayment of revolver loan	9	(28,000)	-
Payment of finance leases		(707)	(198)
Drawings on term debt	9	20,000	180,000
Repayment of term debt	9	(6,000)	(160,000)
Drawings on delayed draw loan	9	50,491	20,000
Repayment of delayed draw loan	9	(20,000)	-
Issuance of Class D common shares		-	550
Repayment of \$15M debentures	11	(28,577)	-
Share issuance costs	14	(5,435)	-
Proceeds from Initial Public Offering	14	70,019	-
Proceeds from exercise of stock options		651	-
Dividends paid during the year		(12,868)	-
Investment from non-controlling interest	15	5,863	2,400
Distributions to non-controlling interest	15	(1,075)	(500)
Finance costs paid		(8,882)	(8,340)
		59,930	48,812
Investing activities			
Purchase of intangible assets		-	(651)
Acquisition of the Aliceville Facility	22	(47,569)	-
Purchase of property, plant and equipment	21	(73,131)	(72,056)
Proceeds from sale of property, plant and equipment		1,903	25
		(118,797)	(72,682)
Foreign exchange gain (loss) on cash position held in foreign currency		214	(279)
Increase (decrease) in cash and cash equivalents		(880)	6,796
Cash and cash equivalents, beginning of year		18,908	12,112
		\$ 18,028	\$ 18,908

See accompanying notes to the consolidated financial statements



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

1. Reporting entity

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”.

On December 29, 2018, Pinnacle Renewable Holdings Inc. completed a vertical short-form amalgamation under the Business Corporations Act (British Columbia) with its wholly-owned subsidiary, Pinnacle Renewable Energy Inc., pursuant to a director's resolution. Shortly following the amalgamation, the Company changed its name from "Pinnacle Renewable Holdings Inc." to "Pinnacle Renewable Energy Inc."

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 Province of British Columbia and Alberta and in the United States (currently in the state of Alabama). The Company’s new facility in Entwistle, Alberta started commercial operations on June, 29, 2018. 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 also owns and operates the Westview port facility at Prince Rupert for the storage, handling and loading of the Company's and third party wood pellets. During the year, the Company also entered into pre-commercial production for its new facility in Smithers, British Columbia.

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.

2. Basis of preparation

a) Statement of compliance and basis of measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2019.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial liabilities and derivative instruments which are stated at fair value with change in fair value recognized in net profit (loss).

The fiscal year or year referred to in the consolidated financial statements are the 52-week periods ended December 28, 2018 and December 29, 2017.

Accounting standards adopted in 2018

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from contracts with customers* and IFRS 9, *Financial Instruments*.



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

2. Basis of preparation (continued)

a) Statement of compliance and basis of measurement (continued)

Accounting Standards issued but not yet effective

IFRS 16 *Leases*, was issued in January 2016 by the IASB as a replacement for IAS 17 *Leases* 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 recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. 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 recognized 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. The Company has elected to apply the modified retrospective approach upon adoption at January 1, 2019, 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.

Based on lease data as at December 28, 2018, IFRS 16 is expected to result in an increase to right-to-use assets and lease liabilities of approximately \$48,000. The Company is finalizing its analysis and calculations in the first quarter and will provide all the required disclosures and amounts when filing its condensed consolidated interim financial statements in the first quarter of 2019.

b) Basis of consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, its majority-owned subsidiaries and its ownerships in its equity investments as follows:

	Country of residence	Economic ownership	Voting %	Method of accounting
Houston Pellet Inc. ("HPI")	Canada	33%	33%	Equity
Houston Pellet Limited Partnership ("HPLP")	Canada	30%	30%	Equity
Lavington Pellet Inc. ("LPI")	Canada	75%	75%	Consolidated
Lavington Pellet Limited Partnership ("LPLP")	Canada	75%	75%	Consolidated
Smithers Pellet Inc. ("SPI")	Canada	70%	70%	Consolidated
Smithers Pellet Limited Partnership ("SPLP")	Canada	70%	70%	Consolidated
Pinnacle Renewable Holdings (USA) Inc. ("PRHUSA")	USA	100%	100%	Consolidated
Pinnacle Westervelt Renewable Holdings, LLC ("PWRH LLC")	USA	70%	70%	Consolidated
Westervelt Pellets I, LLC ("WPI LLC")	USA	70%	70%	Consolidated

To simplify the structure and to eliminate non-operating entities, Pinnacle Pellet Houston Inc. has been wound up during the year ended December 28, 2018. During the year, the Company expanded its operations into the United States ("US") by entering into a partnership with The Westervelt Company ("TWC"). PWRH LLC was created, with Pinnacle holding a 70% interest in the partnership through PRHUSA, and TWC holding the remaining 30%. PWRH LLC owns 100% of the operating entity WPI LLC.



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

2. Basis of preparation (continued)

c) Functional currency

These consolidated financial statements are presented in Canadian dollars (“CAD”), which is the Company’s functional currency as it is the primary economic environment in which the Company operates. Certain of the Company’s subsidiaries have a function currency of the U.S. dollar (“USD”) and are translated into CAD at the end of each period for consolidation purposes.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, earnings and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 8 – Goodwill: determination of appropriate cash generating units; and,

Note 27 – Commitments, Leases: whether an arrangement contains a lease.

Assumptions about estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending December 28, 2018 is included in the following notes:

Note 5 – measurement of net realizable value of inventory: key fibre volume measurement assumptions;

Note 8 – impairment test of goodwill: key assumptions underlying recoverable amounts;

Note 11 – determination of the fair value of debt and equity components of convertible debentures on the basis of significant unobservable inputs up until the convertible debentures were converted into common shares;

Note 12 – determination of the fair value of common shares classified as liabilities on the basis of significant unobservable inputs up until the common shares were either repurchased or converted into the Company's common shares at the IPO date;

Note 13 – recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources; and,

Note 19 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used.



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. All accounting policies have been applied consistently by the Company, its subsidiaries and associates.

Certain comparative amounts in the consolidated statements of profit (loss) have been reclassified to conform with the current year's presentation.

a) Subsidiaries

The Company's determination of its subsidiaries is based on its control of entities that are subject to consolidation and reflects its continuing power to determine their strategic operating, investing and financing policies without the co-operation of others, in a manner that would earn the Company the right and ability to obtain future economic benefits from these entities and exposes the Company to the related risks. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

b) Non-controlling interests

For non wholly owned controlled subsidiaries, the net assets attributable to the outside equity shareholders are presented as non-controlling interests in the equity section of the consolidated statement of financial position. Profit or loss for the period that is attributable to non-controlling interests is calculated based on the ownership of the minority shareholders in the subsidiary.

c) Investment in associates (equity accounted investees)

Associates are those entities in which the Company has significant influence, but does not control the strategic financing, investing and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for initially at cost and subsequently using the equity method, whereby the investment is adjusted for post-acquisition earnings and equity transactions, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation to fund the investee's operations or has made payments on behalf of the investee.

d) Transactions eliminated on consolidation

Inter-company balances and transactions as well as any unrealized income and expenses arising from inter-company transactions are eliminated in the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

3. Significant accounting policies (continued)

e) Foreign currency translation

Foreign currency transactions:

Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at historic rates. Foreign currency differences arising on translation are recognized in net profit (loss).

Foreign operations:

Certain of the Company's subsidiaries have a functional currency of the USD. Revenues and expenses of such foreign operations are translated to Canadian dollars at the average rates for the period which approximate the transaction date. Assets and liabilities are translated into CAD at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in other comprehensive income, and included in accumulated other comprehensive income in equity.

Foreign currency translation differences residing in accumulated other comprehensive income will be released to net profit (loss) upon the reduction of the net investment in foreign operations through the sale or substantial liquidation of an investment position. In the case of a partial disposal not resulting in a loss of control, foreign currency translation differences are reclassified from the accumulated other comprehensive income to the non-controlling interest in the foreign subsidiary.

Monetary inter-company receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in other comprehensive income and presented in the accumulated other comprehensive income in equity.

Hedge of net investment in a foreign operation:

Financial liabilities denominated in foreign currencies are from time to time designated as a hedge of the Company's net investments in foreign operations. Foreign currency differences arising on the revaluation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in foreign currency translation differences in other comprehensive income to the extent that the hedge is effective, and presented in the accumulated other comprehensive income in equity. To the extent that the hedge is ineffective, such differences are recognized in finance cost in net profit (loss). When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting, any accumulated unrealized foreign exchange differences remaining in the accumulated other comprehensive income and subsequent unrealized foreign exchange differences are recorded in finance cost in net profit (loss). When the hedged net investment is disposed of, the relevant amount in the accumulated other comprehensive income is reclassified to net profit (loss).

f) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and deposits with original maturities of three months or less from the date of acquisition.



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

3. Significant accounting policies (continued)

g) Inventory

Inventories of fibre, finished wood pellets, supplies and spare parts are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes all direct costs incurred in production and conversion including raw materials, labour and direct overhead and other costs incurred in bringing the inventories to their existing condition and location. The cost of manufactured inventories includes production overhead based on normal operating capacity. Costs that do not contribute to bringing inventories to their present condition and location, such as storage and administration overhead, are excluded from the cost of inventories and expensed as incurred.

The Company estimates net realizable value as the amount inventories are expected to be sold for, less estimated costs for completion and costs necessary to make the sale. In determining net realizable value, factors such as obsolescence and damage, aging of, and future demand for, the inventory, selling prices, and contractual arrangements with customers are considered. A change to these assumptions could impact the inventory valuation and resulting impact on gross margins. Inventories are written down to net realizable value when their cost is not deemed to be recoverable. When circumstances that previously caused inventories to be written down below cost no longer exist, including when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

h) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated amortization and any impairment losses. Cost consists of expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets. Costs are capitalized when economic benefits associated with that asset are probable and cost can be measured reliably. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. All other repairs and maintenance costs are expensed as incurred.

Amortization is recognised over the estimated useful lives on a straight-line basis starting when the asset is available for use. Construction in progress is not subject to amortization until the assets are put into use. Leased assets are amortized over the shorter of their lease term and their useful lives, unless it is reasonably certain the Company will obtain ownership by the end of the lease term. Land is not amortized. Amortization is recorded over the following terms:

Asset	Term
Buildings and related assets	20 years
Production machinery and other equipment	3-20 years
Mobile equipment	5 years
Leasehold improvements	Shorter of the lease term and the useful life

When components of an asset have significantly different useful lives than the primary asset, the components are amortized separately. Residual values, useful lives and methods of amortization are reviewed annually and adjusted prospectively. Gains and losses on the disposal or retirement of property, plant and equipment are determined by comparing net proceeds from disposal with the carrying amount of the asset and are recognized in profit (loss).



PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

3. Significant accounting policies (continued)

i) Leases

Leases where the Company has assumed substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease commencement date at the lower of fair value of the leased asset and present value of the minimum lease payments. Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to its underlying nature.

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments under operating leases are recognized in the Company's net profit (loss).

j) Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of the acquired identifiable net assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less any impairment loss.

k) Intangible assets

Intangible assets are recorded at their fair values at the date of acquisition. For all limited life intangible assets, amortization is provided for on a straight-line basis over their estimated useful lives as follows:

Asset	Estimated useful life
Customer relationships	9 years
Supply agreements	9 years
Other	5 years

Residual values, useful lives and methods of amortization are reviewed periodically and adjusted prospectively.

l) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in net profit (loss). They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.



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3. Significant accounting policies (continued)

m) Income taxes

Income tax expense comprises current and deferred income taxes. Tax is recognized in the consolidated statement of profit (loss), except to the extent that it relates to a business combination or items recognized directly in equity, in which case the tax effect is also recognized in equity.

Current income tax expense or recovery is based on the expected tax payable or receivable on the taxable income or loss using the enacted or substantively enacted tax rate applicable to that profit or loss.

Deferred income taxes are recorded using the asset and liability method of income tax allocation. Under this method, deferred income tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in the income tax rates is included in net profit (loss) in the period in which the rate change occurs.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available to utilize the tax losses, tax credit carry-forwards and deductible temporary differences.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity or on different tax entities, if there is intention to settle current tax liabilities and assets on a net basis, otherwise tax assets and liabilities will be realized simultaneously.

n) Provisions

A provision is a liability of uncertain timing or amount and is generally recognized when the Company has a present legal or constructive obligation as a result of a past significant event, it is probable that payment will be made to settle the obligation and the payment can be estimated reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.



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3. Significant accounting policies (continued)

o) Decommissioning liabilities

Legal or contractual obligations to retire tangible long-lived assets are recorded in the period in which they are incurred with a corresponding increase in asset value. These include assets leased under operating leases. The liability is accreted over the life of the asset to fair value and the increase in asset value is depreciated over the remaining useful life of the asset. Decommissioning liabilities are discounted at the risk-free rate in effect at the reporting date.

p) Revenue recognition

IFRS 15 *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services, whether at a point in time or over time. The adoption of IFRS 15 does not have a significant impact on the revenue recognized by the Company, and had no financial impact on Pinnacle's consolidated financial statements.

Revenue from the sale of goods is measured based on the consideration specified in a contract with a customer, and is recognised when a customer obtains control of the goods or services. The timing of transfer of control varies depending on the individual terms of the contract of sale. Amounts charged to customers for shipping and handling are recognised as revenue as services are provided, and are recorded in costs and expenses.

Finished wood pellets

Revenue is recognised when control over the pellets is transferred to the customer. The timing of transfer of control is generally when the product is loaded on the shipping vessel.

Port services

Revenue is recognised for port storage and handling services as those services are provided.

q) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consist of cash and cash equivalents, trade and other receivables, certain investments and advances, loans and borrowings, trade and other payables, debentures payable, and common and preferred shares classified as liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit (loss), any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Cash and cash equivalents, trade and other receivables, and interest-bearing marketable securities expected to be held to maturity are categorized as amortized cost and are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses.
- Trade payables and provisions, and loans and borrowings including long term debt are categorized as other financial liabilities and are subsequently measured at amortized cost using the effective interest rate method.



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3. Significant accounting policies (continued)

r) Financial instruments (continued)

Derivative financial instruments

The Company uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and interest rate risk. Foreign currency forward contracts may be used to limit exposure on USD sales. Interest rate swaps may be used to fix a portion of the floating rate debt. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the consolidated statement of financial position at fair value, with changes in fair value (realized and unrealized) being recognized in net profit (loss). The fair value of the derivatives is determined with reference to period-end market trading prices for derivatives with comparable characteristics.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured through net profit (loss). Separable embedded derivatives are measured at fair value with changes recognized immediately through net profit (loss).

Compound financial instruments

Compound financial instruments include convertible debentures that are convertible to Class C common shares at the option of the holder. The liability of the compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at its estimated fair value using an option valuation model. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The interest is recognized in the Company's profit (loss).

As at December 28, 2018, the Company does not have any outstanding compound financial instruments.

s) Finance costs

Finance costs consist of borrowing costs, unwinding of discounts on non-financial assets and liabilities, changes in the fair value of financial assets and liabilities at fair value through net profit (loss), impairment losses recognized on financial assets, foreign exchange gains (losses), and gains (losses) on derivatives. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net profit (loss) using the effective interest method. Qualifying assets are those that take a substantial period of time to be made ready for their intended use and generally those that are related to major developments or construction projects. Foreign exchange gains and losses are reported on a net basis.



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For the years ended December 28, 2018 and December 29, 2017

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3. Significant accounting policies (continued)

t) Business combinations

The Company uses the acquisition method to account for business combinations. All identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Longer term assets, which may include land, buildings and equipment, are independently appraised or estimated based on similar appraisals. When intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert develops the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Acquisition-related costs are expensed as incurred through net profit (loss).

u) Share capital

Common shares are classified as equity. If there are features within the common shares that create a liability upon triggering events outside of the Company's control, the common shares are presented as a liability.

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity. Otherwise, preferred shares are classified as liabilities and dividends recorded as interest expense.

Incremental costs directly attributable to the issue of share capital classified as equity and stock-based payments are recognized as a deduction from equity, net of any tax effects for those shares presented as equity, and as a finance cost for those shares presented as liabilities.

v) Stock-based compensation

The Company has a stock option plan as described in note 17. Compensation expense is recognized based on the fair value at the grant date over the vesting period. The expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

w) Earnings per share

The Company calculates basic net profit (loss) per share by dividing net profit (loss) attributable to owners by the weighted average number of common shares outstanding and calculates diluted net profit (loss) per share under the treasury stock method. Under the treasury stock share method, diluted net profit (loss) is calculated by considering the dilution that would occur if stock options or other convertible instruments were converted into shares.

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4. Accounts Receivable

As at	December 28, 2018		December 29, 2017	
Trade accounts receivable	\$	11,274	\$	14,503
Current portion of receivable against NMTC debt (note 10)		1,515		-
Other receivables		29,538		25,965
Amounts receivable from related parties (note 23)		690		785
	\$	43,017	\$	41,253

Included in other receivables is \$ 23,085 (2017 - \$14,590) of accrued sales for partially loaded vessels which were invoiced in the month subsequent to year end.

5. Inventory

As at	December 28, 2018		December 29, 2017	
Wood pellets	\$	8,896	\$	6,479
Fibre		7,575		6,764
Supplies and spare parts		8,060		4,466
	\$	24,531	\$	17,709

The above inventory balances include adjustments to measurement estimates and to net realizable values which resulted in write-ups and write-downs. For the year ended December 28, 2018, fibre inventory reflects a write-up of \$424 (December 29, 2017 - write-up of \$594). The provision related to wood pellets as at December 28, 2018 was \$105 (December 29, 2017 - \$nil). These adjustments are included in production costs in net profit (loss).

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

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in- progress	Total
Balance, beginning of fiscal year	\$ 43,541	\$ 119,384	\$ 73,852	\$ 236,777
Additions	-	961	64,716	65,677
Amortization	(3,973)	(17,744)	-	(21,717)
Disposals and retirements	(153)	(1,370)	-	(1,523)
Acquisition of Aliceville Facility	7,953	41,494	-	49,447
Exchange rate movement	360	1,878	-	2,238
Transfer from construction-in-progress	25,974	81,802	(107,776)	-
Balance, December 28, 2018	\$ 73,702	\$ 226,405	\$ 30,792	\$ 330,899
Cost	\$ 95,609	\$ 332,065	\$ 30,792	\$ 458,466
Accumulated amortization	(21,907)	(105,660)	-	(127,567)
Balance, December 28, 2018	\$ 73,702	\$ 226,405	\$ 30,792	\$ 330,899

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

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in- progress	Total
Balance, beginning of fiscal year	\$ 40,112	\$ 124,845	\$ 8,639	\$ 173,596
Additions	6,632	3,004	75,934	85,570
Amortization	(2,928)	(14,787)	-	(17,715)
Disposals and retirements	-	(1,058)	-	(1,058)
Impairment loss	(1,000)	(2,245)	-	(3,245)
Transfer from construction-in- progress	725	9,625	(10,721)	(371)
Balance, December 29, 2017	\$ 43,541	\$ 119,384	\$ 73,852	\$ 236,777
Cost	\$ 66,095	\$ 199,778	\$ 73,852	\$ 339,725
Accumulated amortization	(22,554)	(80,394)	-	(102,948)
Balance, December 29, 2017	\$ 43,541	\$ 119,384	\$ 73,852	\$ 236,777

Additions includes assets acquired through acquisition of Aliceville facility (note 22). At December 28, 2018, PP&E includes \$29,826 (December 29, 2017 - \$8,767) for construction-in-progress of our new plant in Smithers, BC. On June 29, 2018, Entwistle was commissioned and operating as intended by management and thus construction in progress has been transferred into other PP&E asset categories.

7. 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 loss:

Investment in HPLP	30%	30%
As at	December 28, 2018	December 29, 2017
Current assets	\$ 19,943	\$ 17,616
Non-current assets	7,660	8,544
Current liabilities	(2,432)	(2,516)
Net assets	\$ 25,171	\$ 23,644
Company's share of net assets	7,551	7,093
Goodwill	1,823	1,823
Investment in HPLP	\$ 9,374	\$ 8,916

	December 28, 2018	December 29, 2017
Revenue	\$ 32,858	\$ 30,750
Expense	(27,845)	(24,503)
Amortization	(1,423)	(1,337)
Loss on disposal of property and equipment	(63)	(308)
Net profit	\$ 3,527	\$ 4,602
Company's share of net profit	\$ 1,058	\$ 1,381

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8. Goodwill and intangible assets

	Goodwill	Customer relationships	Supply agreements	Other	Total
Balance, December 30, 2016	\$ 97,482	\$ 5,565	\$ 4,043	\$ 1,814	\$ 108,904
Additions	-	-	651	-	651
Amortization	-	(1,663)	(1,209)	(43)	(2,915)
Balance, December 29, 2017	\$ 97,482	\$ 3,902	\$ 3,485	\$ 1,771	\$ 106,640
Additions	4,204	-	-	-	4,204
Exchange rate movement	190	-	-	-	190
Amortization	-	(1,663)	(1,208)	(90)	(2,961)
Balance, December 28, 2018	\$ 101,876	\$ 2,239	\$ 2,277	\$ 1,681	\$ 108,073
At December 29, 2017					
Cost	\$ 97,482	\$ 15,000	\$ 11,551	\$ 2,199	\$ 126,232
Accumulated amortization	-	(11,098)	(8,066)	(428)	(19,592)
Net book value at December 29, 2017	\$ 97,482	\$ 3,902	\$ 3,485	\$ 1,771	\$ 106,640
At December 28, 2018					
Cost	\$ 101,876	\$ 15,000	\$ 11,551	\$ 2,199	\$ 130,626
Accumulated amortization	-	(12,761)	(9,274)	(518)	(22,553)
Net book value at December 28, 2018	\$ 101,876	\$ 2,239	\$ 2,277	\$ 1,681	\$ 108,073

On October 15, 2018, the Company acquired 70% interest in the US partnership PWRH LLC. Additions to goodwill include the consideration paid in excess of the net assets acquired in the partnership (note 22).

The Company conducted its annual impairment testing in the fourth quarter. The recoverable amount of goodwill is determined based on the greater of the value in use and the fair value less costs to sell of each of the Company's cash generating units. Given the recent acquisition of Aliceville and the goodwill associated with that acquisition, the Company did not complete a separate impairment test for the goodwill associated with this acquisition. The remaining goodwill relates to the Company's Canadian operations. The Company utilized the fair value less costs to sell approach and determined based on the fair value of the Company, as evidenced by the Company's share price over the net book value of its equity at December 28, 2018, that there was sufficient head room to not perform any further analysis of fair value less costs to sell or a value in use determination for 2018.

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9. Long-term debt

As at	December 28, 2018		December 29, 2017	
Revolver loan	\$	18,450	\$	22,000
Term loan		194,000		180,000
Delayed draw		50,491		20,000
	\$	262,941	\$	222,000
Less:				
Revolver loan - current portion		(18,450)		(22,000)
Term loan - current portion		(9,500)		(6,000)
Deferred financing costs		(2,566)		(3,187)
	\$	232,425	\$	190,813

Aggregate minimum payments for each of the next five fiscal years for the long term debt are as follows:

	Revolver loan		Term loan		Delayed draw		Total
2019	\$	18,450	\$	9,500	\$	-	\$ 27,950
2020		-		14,500		3,029	17,529
2021		-		19,000		4,797	23,797
2022		-		151,000		42,665	193,665
2023		-		-		-	-
Total	\$	18,450	\$	194,000	\$	50,491	\$ 262,941

As at December 28, 2018 and December 29, 2017, the Company has 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 CAD Prime-Based Loans, Banker's Acceptances ("BA") from the BA Lenders in CAD, BA Equivalent Loans from the Non-BA Lenders in CAD, USD Base Rate Loans, and LIBOR Loans in USD. 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 year ending December 28, 2018, the Company made scheduled repayments of the term loan of \$6,000 (2017 - \$1,600). As 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 December 29, 2017, the \$180,000 term loan and the \$22,000 revolver loan were in CAD Prime loans at 5.70% and the \$20,000 delayed draw term loan was in a CAD BA loan at 4.86%. At December 28, 2018, the Company had issued letters of credit totaling \$1,438 (December 29, 2017 - \$530). The delayed draw has been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$1,500 (2017 - nil) arising on its revaluation were recognized in foreign currency translation differences in other comprehensive income for the year ended December 28, 2018.

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. As at 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.

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10. New Market Tax Credit Debt

As at	December 28, 2018	December 29, 2017
NMTC loan	\$ 86,392	\$ -
	\$ 86,392	\$ -
Less:		
current portion	(1,515)	-
	\$ 84,877	\$ -

Aggregate minimum payments for each of the next five fiscal years for the long term debt are as follows:

	NMTC loan
2019	\$ 1,515
2020	84,877
2021	-
2022	-
2023	-
Total	\$ 86,392

In 2012 and 2013, WPI 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 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 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 December 28, 2018, WPI LLC has outstanding NMTC debt of approximately 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 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 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. The NMTC Debt is not included in 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.

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11. Shareholders' debentures payable

As at	December 28, 2018	December 29, 2017
Convertible debentures at face value	\$ -	\$ 60,000
Accrued interest debentures at face value	-	49,570
Effective interest rate adjustment on convertible debentures	-	(48,364)
	-	61,206
Subordinated debentures at face value	-	15,000
Accrued interest on subordinated debentures	-	13,571
	-	28,571
	-	89,777
Less: current interest payable in other current liabilities	-	(896)
	\$ -	\$ 88,881

As at December 29, 2017, the ONCAP entities ("ONCAP") collectively owned 60% of the Company and was the Company's controlling parent. ONCAP held convertible debentures totaling \$60,000 at face value and \$49,570 representing accrued interest. The Company carried the combined fair value of these instruments of \$61,206 as liability and \$35,213 as equity on the consolidated statements of financial position. ONCAP and other minority shareholders also held subordinated debentures totaling \$15,000 at face value.

Upon the closing of the IPO on February 6, 2018, the convertible debentures were exchanged for common shares. The \$60,000 convertible debentures were converted at their conversion value along with an associated deferred income tax recovery of \$6,971 with no gain or loss on conversion. The \$49,570 debentures were exchanged for new common shares at their face value, resulting in a \$21,881 loss on exchange, representing the difference between the carrying value and the face value, netted against an associated deferred income tax recovery of \$5,759. The carrying value of the subordinated debentures and accrued interest of \$28,577 were repaid from proceeds of treasury shares issued at the IPO.

12. Common and preferred share classified as liabilities

As at	December 28, 2018	December 29, 2017
Class B common shares 5,500,000 shares; cost of \$5,500	\$ -	\$ 17,215
Class D common shares 1,172,414 shares; cost of \$1,550	-	3,646
Class H common shares 5,004,000 shares; cost of \$5,055	-	5,131
	\$ -	\$ 25,992

At December 29, 2017, the Company's management held Class B and Class D common shares. These shares contained features that could require future settlement in cash and Class D shares had a put right enabling shareholders to put their Class D shares to the Company on death or disability at the greater of cost or fair value. The fair value measurements for these classes of shares were presented as liabilities. Class H preferred shares accrued dividends at 4.5% and 3.0% was paid quarterly. The difference of 1.5% was added to their carrying value.

Upon the closing of the IPO on February 6, 2018, Class B and Class D common shares and Class H preferred shares presented as liabilities were exchanged for new common shares at their fair value, resulting in a \$3,563 gain on conversion.

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13. Other long-term liabilities

	December 28, 2018	December 29, 2017
Derivative contracts - long-term	\$ -	\$ 218
Decommissioning liabilities	2,101	2,192
Other	2,234	1,047
	\$ 4,335	\$ 3,457

The Company has certain decommissioning liabilities related to the operations of the Westview Port, the plants at Lavington, Armstrong, and Williams Lake and the use of rail cars.

As at	December 29, 2017	Change in discounted amount	December 28, 2018
Plants	\$ 745	(44)	\$ 701
Port Facility	1,170	(52)	1,118
Rail cars	277	5	282
Total decommissioning liabilities	\$ 2,192	(91)	\$ 2,101

Plants

The construction and operation of the Lavington plant requires a provision to be set up for the eventual demolition and removal of the plant to restore the operating site to its original condition in accordance with the land lease agreement. The initial term of the land lease expires on December 31, 2019 and renews automatically for an indefinite number of five-year periods until terminated. Due to the long-term nature of the liability, there is significant uncertainty regarding eventual costs required to restore the site to its original condition and a \$700 decommissioning cost was provided as management's best estimate. The decommissioning cost was discounted at 2.18% (2017 – 2.26%) which is the Government of Canada long-term bond yield risk-free rate. In addition, provisions have been provided for personal property and fixtures removal for the plants at Armstrong and Williams Lake at the end of their lease terms in accordance with the Company's lease agreements.

Port facility

In accordance with the associated lease agreement with the Prince Rupert Port Authority, the Company has an obligation to dismantle certain aspects of the Westview port facility at the end of the lease term. The lease term is 21 years ending September 30, 2033, with an option to extend for 10 years. The Company included a provision for the dismantling costs of \$1,200 which is management's best estimate. The discount rate of 2.18% (2017 – 2.26%) was used for decommissioning cost, which is the Government of Canada long-term bond yield risk-free rate.

Rail cars

Rail cars are leased under various agreements which require the rail cars to be restored to their original condition at the end of the lease term and prior to their return to the lessor.

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14. Shareholders' equity

Prior to the IPO, the Company's authorized share capital was as described in the December 29, 2017 annual consolidated financial statements.

In connection with the IPO, the Company amended its share structure ("Pre-Closing Capital Changes") and issued new common shares as follows:

Share structure	Pre-closing share structure		New common shares	
	Number of shares	Amount	Number of shares	Amount
Class A common shares	25,000,000	\$ 25,000	5,831,730	\$ 25,000
Class B common shares	4,500,000	4,500	1,049,711	4,500
Class B common shares (liability)	5,500,000	17,215	1,282,980	14,275
Class D common shares (liability)	1,172,474	3,646	254,592	3,023
Class E preferred shares	500,000	500	36,719	500
Class F preferred shares	19,000,000	19,000	2,274,553	19,000
Class G preferred shares	8,600,000	8,505	982,341	8,505
Class H preferred shares (liability)	5,004,000	5,150	457,785	5,150
Convertible debentures	-	-	14,076,068	125,269
Stock options exercised	-	-	432,853	1,597
Share issuance	-	-	6,223,889	70,019
Share issuance cost	-	-	-	(3,987)
	69,276,474	\$ 83,516	32,903,221	\$ 272,851

As at December 28, 2018, the Company's authorized share capital consisted of the following:

- Unlimited common participating, voting shares, without par value; and,
- Unlimited preferred participating, voting shares, without par value.

As at December 28, 2018, there were 33,003,713 common shares issued and outstanding and no preferred shares issued and outstanding. 1,120,885 common shares were issued on the exercise of stock options during the fiscal year ended December 28, 2018 (note 17) which added \$1,115 to common shares at December 28, 2018 resulting in \$273,966 for common shares after deducting cumulative share issuance cost of \$3,987.

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15. 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%	
As at	December 28, 2018	December 29, 2017
Current assets	\$ 9,652	\$ 8,703
Non-current assets	38,176	40,610
Current liabilities	(3,631)	(3,650)
Non-current liabilities	(852)	(970)
Net assets	\$ 43,345	\$ 44,693
Net assets attributable to NCI	\$ 10,836	\$ 11,173

SPLP	30%	
As at	December 28, 2018	December 29, 2017
Current assets	\$ 4,868	\$ 1,828
Non-current assets	29,418	9,417
Current liabilities	(6,857)	(3,245)
Net assets	\$ 27,429	\$ 8,000
Net assets attributable to NCI	\$ 8,229	\$ 2,400

PWRH LLC	30%	
As at	December 28, 2018	December 29, 2017
Current assets	\$ 22,849	\$ -
Non-current assets	135,963	-
Current liabilities	(8,237)	-
Non-current liabilities	(84,877)	-
Net assets	\$ 65,698	\$ -
Net assets attributable to NCI	19,709	-
Unrealized gain (loss) on foreign exchange	(846)	-
Net assets attributable to NCI	18,863	-
Net assets attributable to NCI (USD)	\$ 14,482	\$ -
Total net assets attributable to NCI	\$ 37,928	\$ 13,573

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15. Non-controlling Interests (continued)

LPLP	December 28, 2018		December 29, 2017	
Revenue	\$	48,536	\$	42,015
Net profit		2,951		1,412
Net profit allocated to NCI	\$	738	\$	353
-				
SPLP	December 28, 2018		December 29, 2017	
Revenue	\$	-	\$	-
Net loss		(114)		-
Net loss allocated to NCI	\$	(34)	\$	-
-				
PWRH LLC	December 28, 2018		December 29, 2017	
Revenue	\$	13,251	\$	-
Net profit		492		-
Net profit allocated to NCI		148		-
Net profit allocated to NCI (USD)	\$	108	\$	-
-				
Total net profit (loss) allocated to NCI	\$	852	\$	353

16. Expenses by nature and function

Included in production, distribution and selling, general and administrative costs are the following employee benefit expenses ⁽¹⁾:

Fiscal year ended	December 28, 2018		December 29, 2017	
Production	\$	20,920	\$	16,527
Distribution		4,075		2,972
Selling, general and administration		13,065		7,964

(1) Employee benefit expense for the year ended December 28, 2018 includes stock-based compensation of \$4,266 (2017 - \$237) (note 17).

Amortization of equipment and intangibles allocated by function are as follows:

Fiscal year ended	December 28, 2018		December 29, 2017	
Production	\$	17,365	\$	14,145
Distribution		3,844		3,824
Selling, general and administration		3,469		3,850

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17. 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 \$498 in stock-based compensation expense for the fiscal year ended December 28, 2018 (2017 - Nil), 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. 1,594,491 common shares, representing approximately 4.83% of the Company’s common shares upon the completion of the IPO, are reserved and available for issuance upon exercise of options previously granted under the Legacy Plan.

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

	December 28, 2018 ⁽¹⁾		December 29, 2017 ⁽¹⁾	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,715,376	\$ 6.63	6,778,000	\$ 1.00
Granted	-	\$ -	1,200,000	\$ 3.00
Exercised	(1,120,885)	6.48	-	-
Forfeited / cancelled / expired	-	-	-	-
Outstanding, end of year	1,594,491	\$ 8.13	7,978,000	\$ 1.33

⁽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 fiscal year ended December 28, 2018, a total of \$1,216 in stock-based compensation expense was recognised in relation to the Legacy Plan (2017 - \$237) including the amounts for the amended options as discussed above. Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

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17. Stock-based compensation (continued)

b) Long-term Incentive Plan (“LTIP”)

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

For the fiscal year ended December 28, 2018, the Company has granted 150,000 options vesting over a period of three to five years.

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	33.11%
Risk-free interest rate	1.96% to 2.43%
Expected life	10 years
Exercise price	\$ 11.91 to \$ 16.21

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

	December 28, 2018 ⁽¹⁾		December 29, 2017 ⁽¹⁾	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	-	\$ -
Granted	150,000	\$ 14.53	-	\$ -
Exercised	-	-	-	-
Forfeited / cancelled / expired	-	-	-	-
Outstanding, end of year	150,000	\$ 14.53	-	\$ -

⁽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 fiscal year ended December 28, 2018, a total of \$107 of stock-based compensation expense (2017 - \$nil) in relation to options granted under the LTIP was included in selling, general and administration expenses.

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17. Stock-based compensation (continued)

b) Long-term Incentive Plan ("LTIP") (continued)

ii. Restricted share units

For the fiscal year ended December 28, 2018, the Company granted 271,921 RSUs (2017 - Nil) out of which 259,356 RSUs were vested immediately upon grant.

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.

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	33.11%
Risk-free interest rate	1.88% to 1.92%
Expected life	4.01 to 6.01 years
Exercise price	\$nil

For the fiscal year ended December 28, 2018, stock-based compensation expense in relation to RSUs granted under the LTIP was \$4,266 (2017 - \$nil) and was included in selling, general and administration expenses.

18. Finance costs

a) Finance costs excluding shareholders' debentures

	December 28, 2018	December 29, 2017
Interest on revolver loan, term debt and delayed draw loan	\$ 8,851	\$ 7,425
Fair value (gain)/loss on derivatives	(5,613)	1,566
Realized (gain)/loss on derivatives	(597)	(135)
Unrealized (gain)/loss on foreign exchange	(1,748)	(268)
Realized gain on foreign exchange	360	436
Amortization of deferred financing fees	652	1,094
Other	1,137	1,774
	\$ 3,042	\$ 11,892

b) Finance costs on shareholders' debentures

	December 28, 2018	December 29, 2017
Interest on debentures (note 11)	\$ -	\$ 12,359
	\$ -	\$ 12,359

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19. Income taxes

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

Fiscal year ended	December 28, 2018	December 29, 2017
Income tax recovery (expense) at statutory rate of 27.00% (2017 – 26.00%)	\$ 348	\$ 1,133
(Increase) decrease related to		
Permanent differences and other	1,055	(1,298)
Entities with different tax rates and foreign rate adjustments	12	-
Change in tax rates	-	(361)
	1,415	(526)
Classified as		
Current	-	-
Deferred	1,415	(526)
Income tax recovery (expense)	\$ 1,415	\$ (526)

The Company's deferred income tax assets and liabilities are comprised of the following:

Deferred tax assets	Non-capital losses	Provisions	Transaction costs	Other	Total
Balance, December 29, 2017	\$ 26,035	\$ 851	\$ 1,413	\$ 157	\$ 28,456
Increase (decrease) to earnings	(2,177)	305	705	1,107	(60)
Balance, December 28, 2018	\$ 23,858	\$ 1,156	\$ 2,118	\$ 1,264	\$ 28,396

Deferred tax liabilities	Property, plant and equipment	Convertible debentures	Intangible assets	Deferred financing costs	Other	Total
Balance, December 29, 2017	\$ (22,194)	\$ (12,730)	\$ (1,914)	\$ (1,188)	\$ (98)	\$ (38,124)
Increase (decrease)	(2,296)	12,730	402	495	(1,454)	9,877
Balance, December 28, 2018	\$ (24,490)	\$ -	\$ (1,512)	\$ (693)	\$ (1,552)	\$ (28,247)
Net deferred tax liability at December 29, 2017						\$ (9,668)
Net deferred tax liability at December 28, 2018						\$ 149

At December 28, 2018, the Company has \$87,713 (2017 - \$96,425) of unused Canadian non-capital loss carry forwards expiring between 2032 and 2038 to reduce future Canadian taxable income, and \$182 (2017 – nil) of unused U.S. federal net operating loss carryforwards to reduce future U.S. taxable income.

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20. Earnings per share

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

	December 28, 2018	December 29, 2017
Net profit (loss) for the year attributable to owners	\$ 1,850	\$ (5,237)
Cumulative preferred dividends	(104)	(1,242)
	\$ 1,746	\$ (6,479)
Net profit (loss) per share (basic and diluted)	\$ 0.05	\$ (0.22)
Weighted average of number of shares outstanding (thousands)	32,974	29,318

For the fiscal years December 29, 2017, the Company incurred a net loss attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive. The weighted average number of shares for the fiscal year ended December 28, 2018 and December 29, 2017 have been adjusted for Pre-Closing Capital Changes (note 14).

21. Supplemental cash flow information

	December 28, 2018	December 29, 2017
Accounts receivable	\$ 7,098	\$ (16,526)
Inventory	447	2,713
Other current assets	443	181
Accounts payable and accrued liabilities	13,033	(20,733)
Other current liabilities	(14,004)	14,182
Net change in non-cash operating working capital	\$ 7,017	\$ (20,183)

	December 28, 2018	December 29, 2017
PP&E additions during the year	\$ 65,677	\$ 85,570
PP&E additions from prior year paid during the year	9,250	1,792
PP&E additions in accounts payable & other liabilities	(1,796)	(15,306)
Purchase of PP&E	\$ 73,131	\$ 72,056



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22. Acquisition of the Aliceville Facility

On October 15, 2018, the Company closed the acquisition of interest in the Aliceville Facility from The Westervelt Company (“Westervelt”), a diversified land resources company, at a purchase price of approximately US\$36.8 million. The Company entered into US market with this acquisition. The Aliceville Facility is wholly owned by Westervelt Pellets I, LLC (“WPI LLC”), a wholly owned subsidiary of Pinnacle Westervelt Renewable Holdings, LLC (“PWRH LLC”). PWRH LLC is owned 70% by Pinnacle through Pinnacle Renewable Holdings (USA) Inc. (“PRHUSA”) and 30% by Westervelt.

At the acquisition date, the Company paid US\$37.3 million, and a working capital true-up refund of US\$0.5 million was received in December 2018. The Company funded the acquisition through a draw on its Facility and cash on hand.

The acquisition was accounted for in accordance with IFRS 3, *Business Combinations*. The following summarizes the consideration paid and recognized amounts of assets acquired and liabilities assumed at the acquisition date, based on the preliminary purchase price allocation:

	Amount in USD	Amount in CAD
Cash	\$ 234	\$ 305
Non-cash working capital, net	9,703	12,634
Property, plant & equipment and intangible assets	37,977	49,446
Total net identifiable assets	47,914	62,385
Non-controlling interest	(14,374)	(18,716)
Goodwill	3,229	4,204
Total Consideration	\$ 36,769	\$ 47,874

If the acquisition of interest in the Aliceville facility had occurred at the beginning of the fiscal year 2018, management estimates that the acquired assets would have increased total sales by \$29,458 and reduced net profit by \$1,201 for the year ended December 28, 2018. Acquisition-related costs of \$731 principally related to external legal fee and due diligence costs have been included in the selling and administration costs when incurred.

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23. Related parties*Parent and ultimate controlling entity*

Prior to the IPO, the Company was controlled by ONCAP, who effectively owned 60% of the Company. ONCAP is ultimately controlled by Onex Corporation. During the year ended December 28, 2018, the Company paid a monitoring fee to ONCAP of \$50 (2017 - \$500). The monitoring fee was discontinued upon the closing of the IPO.

Minority shareholder

During the fiscal year, the Company paid rent on a plant facility to a minority shareholder in the amount of \$240 (2017 - \$240). This amount is set-out in a lease agreement entered into in the normal course of business and on the same terms accorded to unrelated third parties.

Key management personnel compensation

The Company's key management consists of the Board members, Chief Executive Officer, Chief Financial Officer, President and Chief Operating Officer, Senior Vice President of Operations, and Senior Vice President of Sales and Logistics.

Aggregate compensation of the Company's key management was as follows:

Fiscal year ended	December 28, 2018	December 29, 2017
Base compensation and benefits	\$ 1,552	\$ 1,344
Board member fee	181	-
Annual bonus	255	429
Stock-based compensation	4,011	218
	\$ 5,999	\$ 1,991

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.

	December 28, 2018	December 29, 2017
Purchases	\$ 30,172	\$ 24,030
Revenue	5,564	3,560
Management fee	650	639

As at	December 28, 2018	December 29, 2017
Amounts receivable	\$ 690	\$ 785
Amounts payable	2,144	2,715

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

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23. Related parties (continued)*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.

	December 28, 2018	December 29, 2017
Purchases	\$ 48,536	\$ 38,378
Revenue	223	354
As at	December 28, 2018	December 29, 2017
Amounts receivable	\$ 779	\$ 282
Amounts payable	5,830	2,760

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

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.

	December 28, 2018	December 29, 2017
Purchases	\$ -	\$ -
Revenue	-	-
As at	December 28, 2018	December 29, 2017
Amounts receivable	\$ 624	\$ -
Amounts payable	740	-

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

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.

Amounts in USD	December 28, 2018	December 29, 2017
Purchases	\$ -	\$ -
Revenue	399	-
As at (amounts in USD)	December 28, 2018	December 29, 2017
Amounts receivable	\$ 662	\$ -
Amounts payable	-	-

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



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24. Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and introduces a new model for the classification and measurement of financial assets and liabilities, a single expected credit loss model for the measurement of the impairment of financial assets and a new model for hedge accounting that is aligned with an entity's risk management activities.

Classification and measurement:

IFRS 9 replaces the various categories for the classification of financial assets and initially measures them at fair value unless they meet the certain conditions that permit classification as amortised cost. Under IFRS 9 and IAS 39, non-trading financial liabilities are classified and measured at amortized cost except for those designated at fair value through profit and loss. There was no significant change in the Company's measurement of its financial assets and liabilities under IFRS 9.

Under IFRS 9, cash and accounts receivables are classified as amortised cost. Under IFRS 9, the amortized cost category is restricted to those financial assets that meet the following conditions: the entity holds the assets to collect the contractual cash flows and those cash flows are solely payments of principal and interest. The Company holds its accounts receivable to collect the contractual cash flows which represents repayment of the invoiced amount within the short-term credit period. As there is no financing component, accounts receivables are initially measured at their transaction price.

Under IFRS 9, accounts payable, the revolver loan, term loan and delayed draw term loan, shareholders' debentures and Class H preferred shares are classified and measured at amortized cost. Class B and Class D common shares held by management continued to be designated as fair value through profit and loss until they were settled.

Under IFRS 9 and IAS 39, the Company's derivative instruments are always classified and measured at fair value with changes in fair value recognised in the consolidated net profit (loss).

Impairment of financial assets:

IFRS 9 replaces the incurred loss model with the expected credit loss model for the recognition and measurement of impairment losses on financial assets. IFRS 9 allows an entity to use a simplified approach for trade accounts receivable. Under this approach, the Company measures its expected credit losses as the amount from all possible default events over the expected life of its trade accounts receivable. The Company monitors individual customer accounts receivable on a frequent basis and recognizes a credit loss on specific accounts when a default is identified. There was no adjustment to impairment losses resulting from the adoption of use of the expected credit loss model.

The convertible shareholder debentures and Class F preferred shares were classified as amortized cost and on February 6, 2018 these instruments were converted to common shares. Also, on February 6, 2018, the subordinated shareholders' debentures were repaid at their amortized cost (note 11).

The Class B common shares and Class D common shares classified as liabilities were carried at fair value based on the underlying fair value of the enterprise based on management's estimates. Accordingly, these financial instruments are classified as Level 3 in the fair value hierarchy. These Class B and D shares were converted to common shares on February 6, 2018. Prior to the conversion, these shares were revalued to their fair value based on the Company's enterprise value calculated with the IPO price of \$11.25 per common share. This change in valuation resulted in a reduction in the fair value of these financial instruments and a gain recognised in the Company's net loss (note 12).

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24. Financial instruments (continued)

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values:

For fiscal year ended	
Balance at December 30, 2016	\$ 14,710
Issuance of class D common shares	550
Net change in fair value	5,601
Balance at December 29, 2017	\$ 20,861
Net change in fair value	(3,563)
Conversion to common shares	(17,298)
Balance at December 28, 2018	\$ -

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

As at	December 28, 2018		December 29, 2017	
Other current assets	\$	2,690	\$	-
Other long-term assets		2,449		-
Other current liabilities		-		256
Other long-term liabilities		-		218
	\$	5,139	\$	474

For the fiscal year ended December 28, 2018, the Company recognised a gain of \$6,210 (2017 loss - \$1,431) on its derivative financial instruments in its net profit (loss).

25. Financial Risk and Capital Management

The Company is exposed to a number of risks as a result of holding financial instruments including credit risk, liquidity risk and market risk. The Company's 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 the Company 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. The Company manages its credit risk on cash by using major Canadian chartered banks for all cash deposits. The cash balance at December 28, 2018 is \$18,028 (2017 - \$18,908).

The Company manages its 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 \$5,000. The significant majority of the Company's sales are contracted with large utility customers on which no impairment loss has been recognized during the fiscal years ended 2018 and 2017. The receivable balance at December 28, 2018 is \$43,017 (2017 - \$41,253).

Included in accounts receivable is \$1,515 (2017 - Nil) of unsecured receivables from TWC. The receivables against NMTC debt (note 10) \$84,877 is also an unsecured receivable from TWC. However, the Company has received indemnification against all payments, liabilities and economic loss arising from the NMTC debt from TWC.

**PINNACLE RENEWABLE ENERGY INC. (Formerly Pinnacle Renewable Holdings Inc.)**

Notes to the Consolidated Financial Statements

For the years ended December 28, 2018 and December 29, 2017

(Expressed in thousands of Canadian dollars unless otherwise stated)

25. Financial Risk and Capital Management (continued)*Liquidity risk*

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

The contractual maturities of financial liabilities excluding future interest and shareholders' debentures and common and preferred shares at December 28, 2018 were as follows:

	Carrying amount	Contractual cash flows	3 months or less	3-12 months	More than 1 year
Non derivative financial liabilities					
Revolver loan ⁽ⁱ⁾	\$ 18,450	\$ 18,450	\$ 18,450	\$ -	\$ -
Accounts payable and accrued liabilities	43,537	43,537	43,537	-	-
Term loan	194,000	194,000	2,000	7,500	184,500
Delayed draw loan	50,491	50,491	-	3,029	47,462

⁽ⁱ⁾ Classified as 3 months or less as due on demand; however, maturity of the Revolver loan is December 13, 2022.

Management expects to finance its operations and cash flows from its current available resources and without further support from its shareholders and lenders. However, to the extent that additional cash resources are required due to unforeseen circumstances, management anticipates support from its shareholders and lenders, although there can be no guarantees.

Market risk

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

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25. Financial Risk and Capital Management (continued)*Foreign currency*

The Company's functional and reporting currency is the CAD. The Company's sales, operating and capital expenditures are primarily denominated and settled in CAD. The Company has exposure to the USD on its shipping costs, rail car leases, some capital purchases, and through operation of the Aliceville Facility in the United States which uses USD as its functional currency. The Company mitigates its exposure to the USD on its shipping costs by invoicing the shipping portion in USD and with a contract with its major shipping provider with a fixed USD to CAD exchange rate. The remaining exposure is mitigated by entering into a series of USD forward contracts matching the amount and timing of the estimated USD expenditures.

These contracts are simultaneously settled on a gross tax basis as the Company exchanges USD into CAD at predetermined rates. The Company does not apply hedge accounting to its USD forward contracts. The outstanding notional amounts of the USD forward contracts and their contractual maturities are as follows:

Particulars	Notional amount		Average forward rate		Less than 1 year		Greater than 1 year		Fair value asset (liability)	
As at December 28, 2018										
USD Forward Contracts	\$	51,775	\$	1.2556	\$	25,800	\$	25,975	\$	5,139
As at December 29, 2017										
USD Forward Contracts	\$	73,564	\$	1.2590	\$	9,064	\$	64,500	\$	(474)

Interest rate

The Company is exposed on interest rate risk through its debt facility including its revolver, term loan and delayed draw term loan which are subject to variable lending rates. Currently, the Company does not use financial instruments to manage this risk. A 1% change in interest rates would increase or decrease interest expense by \$2,300 (2017 - \$1,794).

26. Capital management

The Company's objective when managing its capital structure is to maintain a strong financial position and to provide returns with sufficient liquidity to undertake further growth for the benefit of its shareholders.

The Company's capital is comprised of long-term obligations and equity as outlined below:

As at	December 28, 2018		December 29, 2017	
External party debt (including revolver loan)	\$	262,941	\$	222,000
Shareholders' debentures payable		-		88,881
Common and preferred shares classified as liabilities		-		25,992
Less: cash		(18,028)		(18,908)
Net long-term obligations		244,913		317,965
Total equity		229,013		35,204
Total capitalization	\$	473,926	\$	353,169

There were no changes to the Company's approach to capital management during the year.

The Company is subject to certain financial covenants in its debt obligations. The Company's strategy is to ensure it remains in compliance with all of its existing covenants so as to ensure continuous access to required debt to fund growth. Management reviews results and forecasts to monitor the Company's compliance.



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(Expressed in thousands of Canadian dollars unless otherwise stated)

27. Commitments

Leases

The Company has lease commitments on certain vehicles, rail cars, land, office space and equipment. The total annual minimum lease payments are as follows:

Year	Financing Lease	Operating Lease
2019	\$ 1,031	\$ 10,674
2020	841	9,228
2021	185	7,403
2022	-	4,999
2023	-	4,607
Thereafter	-	28,837
	\$ 2,057	\$ 65,748

Customer and supplier commitments

The Company has made commitments to customers and suppliers with respect to minimum volumes for sales, shipping, storage and loading and fibre purchases. These contracts are in the normal course of business and cover periods of up to fifteen years in the future. Failure to meet contractual terms other than as a result of a force majeure event as defined under the various agreements could result in various payments required by the Company. The Company expects to meet its commitments in the normal course of operations.

Capital commitments

The Company has capital commitments of \$20,596 at December 28, 2018 (2017 - \$22,514).

28. 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.



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Notes to the Consolidated Financial Statements

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(Expressed in thousands of Canadian dollars unless otherwise stated)

29. Revenue from contracts with customers

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

	December 28, 2018	December 29, 2017
Finished wood pellets	\$ 339,782	\$ 286,414
Port Services	7,658	6,313
	\$ 347,440	\$ 292,727

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

	December 28, 2018	December 29, 2017
Europe	\$ 262,875	\$ 259,070
Asia	68,084	18,325
North America	16,481	15,332
	\$ 347,440	\$ 292,727

30. Economic dependence

The Company has certain European customers whose individual revenue represents 10% or greater of the Company's total revenue. For the fiscal year ended December 28, 2018, three of these customers represented 75% of the Company's total revenue. For the fiscal year ended December 29, 2017, three of these customers represented 86% 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.

31. Subsequent events

On December 29, 2018, we commenced commercial production at the Smithers Facility. Additional capital cost will be incurred at a later date.

On January 18, 2019, the Company reached a settlement on a damage claim it was pursuing against one of its equipment suppliers for approximately \$7,483 in the Company's favour. The payment is expected to be received in the first quarter of 2019.

On February 11, 2019, Pinnacle temporarily suspended operations at the Entwistle Facility due to a fire and explosion that occurred at the dryer area of the facility. The Company is currently investigating the cause of the incident and developing action plans to restart the facility. The rest of the Entwistle Facility sustained little damage. The Company is working with its customers to mitigate the impact to the extent possible under the circumstances. Alberta Labour Occupational Health & Safety released control of the site back to the Company on February 20, 2019.

DIRECTORS & OFFICERS



Gregory Baylin
Chair^{1,2*,4}



Pat Bell
Vice Chair^{1*,2,3,4}



Michael Lay
Director^{2,4}



Hugh MacDiarmid
Director^{3*,4}



Jane O'Hagan^{1,3,4}
Director



Robert McCurdy
Director, Chief Executive Officer



Leroy Reitsma
Director, President & Chief Operating Officer



Andrea Johnston
Chief Financial Officer

EXECUTIVE TEAM

Robert McCurdy, Chief Executive Officer
Leroy Reitsma, President & Chief Operating Officer
Andrea Johnston, Chief Financial Officer
Vaughan Bassett, Senior Vice President, Sales & Logistics

Scott Bax, Senior Vice President, Operations
Ranj Sangra, General Counsel & Corporate Secretary
Erin Strong, Director, Human Resources

SHAREHOLDER INFORMATION

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Registrar and Transfer Agent
TSX Trust

Auditors
KPMG LLP

Legal Counsel
McCarthy Tetrault LLP

Stock Exchange Listing
Pinnacle Renewable Energy is listed on the Toronto Stock Exchange under the symbol PL. As at February 21, 2019, Pinnacle had 33,003,713 common shares issued and outstanding.

Investor Contact
Tel: 1.877.737.4344
Email: investors@pinnaclepellet.com

Annual General Meeting
Tuesday, May 21, 2019 at 8:30 am
McCarthy Tetrault LLP
745 Thurlow Street, Suite 2400
Vancouver, BC



 **Pinnacle.**
RENEWABLE ENERGY

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