Fiscal 2019

For the 52-weeks periods ended December 27, 2019 and December 28, 2018

March 2, 2020

Management's Discussion & Analysis

Pinnacle.

RENEWABLE ENERGY INC.

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction

The following management's discussion and analysis ("MD&A") dated March 2, 2020 provides information concerning the financial condition and results of operations of Pinnacle Renewable Energy Inc. collectively with its consolidated subsidiaries, the "Company", "Pinnacle", "we", "us" or "our"). This MD&A provides the reader with a view and analysis, from the perspective of management, of the Company's financial and operating results for the 13-week and 52-week periods ended December 27, 2019. This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for Fiscal 2019 (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 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, all references to "Fiscal 2017" are to our 52-week period ended December 29, 2017, all references to "Fiscal 2018" are to our 52-week period ended December 28, 2018, all references to "Fiscal 2019" are to our 52-week period ending December 27, 2019, all references to "Fiscal 2020" are to our 53-week period ending December 25, 2020, and all references to "Fiscal 2021" are to our 52-week period ending December 31, 2021. All references in this MD&A to "Q4 2019" are to our 13-week period ended December 27, 2019, all references to "Q4 2018" are to our 13-week period ended December 28, 2018. 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.

Fiscal 2018 comparative information has been restated in this MD&A to reflect the finalization of the purchase price allocation for our acquisition of a 70% interest in the Aliceville Facility (as defined herein). The Aliceville acquisition occurred in Q4 2018, however, the purchase price allocation was finalized in Q4 2019 in accordance with IFRS 3. See also Note 19 of the Consolidated Financial Statements.

In this MD&A, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. The term "dollars" and the symbols "$" and "CDN$" refer to Canadian dollars, and the term "U.S. dollars" and the symbol "US$" refer to United States dollars. In this MD&A, the term "tonne" and the symbol "MT" refer to a metric tonne and the term "ton" or the symbol "ST" refer to a short ton, a measure of weight equal to 0.9072 metric tonne. Use of these symbols is in accordance with industry practice.

The information in this report is as of March 2, 2020, which is the date of filing in conjunction with our press release announcing our results for Q4 2019. Disclosure contained in this document is current to March 2, 2020, unless otherwise stated.

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

The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. 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 2020, which estimates are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. FOFI contained in this document was made as of the date hereof and was provided for the purpose of providing shareholders with information on Pinnacle's financial outlook. Pinnacle disclaims any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable securities laws in Canada. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

Non-IFRS Financial Measures

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

COMPANY OVERVIEW, HISTORY, STRATEGY AND OBJECTIVES

Company Overview

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

As one of only three large global suppliers, we currently operate nine production facilities and have two in construction with a combined run-rate production capacity in excess of 2.83 million metric tonnes per annum ("MTPA"). We believe that we are well-positioned to support growing global demand through the construction of new production capacity and the strategic acquisition of existing production facilities. On June 29, 2018, we commenced commercial production at our wholly-owned facility located in Entwistle, Alberta (the "Entwistle Facility") (400,000 MTPA)". On October 15, 2018, we acquired a 70% interest in an operating industrial wood pellet production facility located in Aliceville, Alabama (the "Aliceville Facility") (270,000 MTPA). Early in Fiscal 2019, we commenced commercial production at a wood pellet production facility located in Smithers, B.C. (the "Smithers Facility") (125,000 MTPA). Upgrades at our facility in Williams Lake, B.C. (the "Williams Lake Facility") and Meadowbank, B.C. (the "Meadowbank Facility") commenced in Q2 2019. The upgrades will improve the fibre processing abilities of the two facilities and increase our overall production capacity by approximately 80,000 MTPA. We expect to commence commissioning of the expanded Williams Lake Facility in Q1 2020 and the expanded Meadowbank Facility in Q3 2020. On July 4, 2019, we entered into a limited partnership agreement with Tolko Industries Ltd. ("Tolko") to build and operate Northern Pellet Limited Partnership ("NPLP"), a new industrial wood pellet production facility in High Level, Alberta (the "High Level Facility") that is expected to have a run-rate production capacity of 200,000 MTPA. Initial wood pellet production at the High Level Facility is expected to commence in the fourth quarter of 2020. On December 19, 2019, we announced our planned construction of a new industrial wood pellet production facility in the southeast United States (the "Demopolis Facility"), in partnership with the Westervelt Company and Two Rivers Lumber Company. The Demopolis Facility is expected to have a production capacity of 360,000 MTPA. For additional information regarding these facilities, see "Recent Developments – New and Expanded 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 pellets at specific prices, that represent an average of 99% of our production capacity through 2026 on an aggregated basis, including new production capacity from the Demopolis, Aliceville, Entwistle, Smithers, and High Level Facilities, and increased capacity at the Williams Lake and Meadowbank Facilities. As at December 27, 2019, our total Contracted Backlog (as defined herein) was $7.0 billion with a weighted average remaining term of approximately nine years.

History

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

In February 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 by certain of our shareholders. Pursuant to the IPO, we sold 6,223,889 Common Shares for total gross proceeds of approximately $70.0 million and the selling shareholders sold 9,111,361 Common Shares for total gross proceeds of approximately $102.5 million. The Common Shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "PL".

On June 26, 2018, certain shareholders of the Company completed a secondary offering (the "Secondary Offering") of 4,186,000 Common Shares for total gross proceeds of approximately $58.0 million, further increasing our capital market liquidity.

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

Strategy and Objectives

Through increasing capacity at our existing production facilities, the addition of other greenfield and brownfield projects, including the upgrades at our Williams Lake and Meadowbank Facilities, and the construction of the High Level and Demopolis Facilities, we believe we have an opportunity to continue growing our industrial wood pellet production proportionately with increasing global demand, which is expected to more than double from 2018 to 2026.

Our B.C. production facility diversity and purchasing power offers a unique proposition with wood fibre suppliers, as the entire residual basket (including shavings, sawdust, chips, bark, harvest residuals, and biologs) can be acquired and optimally allocated amongst our multiple production facility locations for efficient processing. Sawmill industry production volumes vary with lumber prices, stumpage rates and economic cycles, resulting in sawmill closures and fluctuations in production of sawmill residuals during down cycles. To offset reduced sawmill residuals, we are able to source sustainable supplies of harvest residuals to fill the gap of sawmill residuals, where necessary. We have wood fibre supply contracts until 2022 for approximately 70% of our raw material needs. Recent sawmill curtailments in B.C. have reduced the percentage of sawmill residual fibre under long term agreements. As outlined below, we have undertaken and will continue to undertake strategies to mitigate the reduction in fibre from our historic suppliers through various strategic initiatives. We do not experience the same cyclical dynamics in Alberta and Alabama as sawmills do not pay the same cost for logs and can continue to operate profitably during lower lumber price cycles.

Our partnerships and relationships with governments, local communities, and First Nations are a core component of our values. We collaborate with a long-term view to positively contribute to the communities we operate in within all states and provinces, grow sources of available fibre, contain operating costs, and enhance regional safety and forest stewardship. While the impact from forest fires in B.C. in 2019 was limited, the regions in B.C. where we operate have experienced a significant impact from the mountain pine beetles and forest fires over recent years. Our experienced fibre team continues to explore additional salvage opportunities as our facilities can consume a broad range of residual fibre without impacting the quality of our product. We continue working with government agencies, First Nations, forest licensees and organizations like the Forests for Tomorrow Program and others to access this fibre and regenerate beetle and fire-damaged woodlands to support local communities, wildlife and the future of the forest sector in B.C. We are working with First Nations to continue advancing opportunities for fibre procurement and processing, and to increase the value they receive from their tenures in areas impacted by wildfires and mountain pine beetle infestations and create more jobs within their communities. We remain focused on diversifying our fibre basket. Once our High Level and Demopolis Facilities come online in 2020 and 2021, we will have regionally diversified over 44% of our production capacity outside of B.C.

Our focus on operational excellence throughout our plant and logistics network is targeted on improvements in safety, production, and managing our fibre and cash conversion costs. Our facilities are able to process a broad range of residual biomass and we have increased our harvest residual fibre supplies and inventory for greater diversity of suppliers. The shift in fibre mix in B.C. from sawmill residuals to harvest residuals results in higher fibre processing and cash conversion costs. As such, we have increased our harvest residual breakdown capabilities by increasing the number of biolog chippers from two units in 2018 to eleven units in Q4 2019, to manage the fibre processing and cash conversion costs. Through the fourth quarter we have continued investing in biolog chippers, destoners and other specialized biomass processing equipment. Our facilities are able to process a broad spectrum of underutilized biomass residuals including whole biologs, bush grind, and other harvest residuals, in addition to more traditional biomass residuals such as shavings and sawdust. This investment, combined with our extensive operational knowledge, will help to drive cost effective production from harvest residual fibre sources.

We have access to a well-established rail infrastructure network in B.C. and Alberta, with all of our Canadian production facilities accessible along CN rail lines. We rely on rail transport to be operating effectively in order to transport our pellets to port. Our port infrastructure is a critical element of our supply chain and is comprised of our wholly owned Westview Terminal in Prince Rupert, B.C. and our access to the Fibreco Export Inc. terminal at the Port of Vancouver (the "Fibreco Terminal") via a long-term throughput contract. At our Alabama facilities, wood pellets are cost-effectively shipped by barge downriver to the port of Mobile, Alabama where they are loaded directly onto cargo ships. The effectiveness of this mode of transport is subject to weather events and water levels.

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

RECENT DEVELOPMENTS

Entwistle Restart

Q4 2019 saw the resumption of full operations at the Entwistle Facility. We implemented additional safety measures as part of the rebuild at this facility and all improvements and enhancements made to the drying system will ensure that the drying process continues to operate consistently and safely. Production volume at the Entwistle Facility, after the restart, has met our expectations based on our recommissioning plan. We also commenced the destoner operation on time and within budget during the quarter and we are currently commissioning.

CN Rail disruption

Employees of CN Rail ("CN"), Canada's largest freight railway, went on strike on November 19, 2019, for a period of eight days, resulting in unforeseen stalled shipments in Q4 2019, as ships were rescheduled to avoid costs during this period of high rail uncertainty. Subsequent delays that occurred while CN's operations began to recommission its network resulted in curtailed production at our B.C. facilities and a loss of 20kMT of lost production, due to maximized storage capacity. Additional production, rail, shipping demurrage and management costs were incurred to manage the impacts of the operations disruption from the strike. Approximately $1.6 million of Adjusted EBITDA was missed in the quarter as a result of the CN strike and the subsequent rail delays. This disruption to our scheduled shipping has resulted in lower sales for Q4 2019, compared to the same period in the prior year, as scheduled shipments shifted into Q1 2020, as well as resulted in a larger level of finished goods inventory on hand at year end.

Charter Vessel leases

In December 2019, Pinnacle entered into a long-term lease with The China Navigation Co. PTE. Ltd Singapore ("Swire"), a leading ocean carrier, to charter a vessel which will be used to carry our wood pellets from Canada to Japan. The vessel is scheduled to be available for use by Pinnacle commencing in Q2 2021 for a period of 15 years. A second long-term lease was signed in January 2020 with NYK Bulk & Projects Carriers Ltd ("NYK"), to charter a second vessel, for the same purpose. This vessel is scheduled to be available for use by Pinnacle commencing in Q1 2021, also for a period of 15 years. The logistics model we are using will provide both ourselves and our customers the widest possible delivery flexibility at the lowest possible cost. These agreements are an important element in our approach to logistics as we continue to participate in the trend of B.C. based businesses expanding in Asian markets. Pinnacle has signed three contracts with customers in Japan in the past six months, underscoring both Japan's strong commitment to decarbonization and the strength of Pinnacle's competitive position in the market.

New Off-take Agreements

On October 17, 2019, we entered into a new long-term, take-or-pay contract with Mitsui & Co. Ltd., a large diversified trading company in Japan, for 100,000 MTPA commencing in Q3 2023. The industrial wood pellets will be used by a biomass power generation plant in Japan. Japan is a supportive market for renewable energy, targeting 3.7% to 4.6% from biomass or 20 million MTPA in pellet equivalent terms, providing Pinnacle with a compelling opportunity to continue growing in this market.

As a result of this contract, we now have an annual average of 99% of our announced production capacity contracted through 2026, on an aggregated basis, including production capacity of the Entwistle Facility, incremental production capacity of the Williams Lake and Meadowbank facilities and new production capacity of the High Level and Demopolis Facilities. Most of the new volume demand commences in 2021 and beyond. Our Contracted Backlog as at December 27, 2019 was $7.0 billion, representing an 18.6% increase over our Contracted Backlog as at December 28, 2018 ($5.9 billion).

For 2019, our three largest customers represented 83% (2018 75%) of total revenue. As at December 27, 2019, our contracts with customers in Japan, the U.K., South Korea, and Europe represent 48%, 33%, 17% and 2%, respectively, of our Contracted Backlog.

New and Expanded Production Facilities

Demopolis

In Q4 2019, we announced our plan to begin construction of a new industrial wood pellet production facility in the U.S southeast, in close proximity to the Aliceville Facility. The new facility (the "Demopolis Facility") will be located adjacent to an existing large sawmill in Demopolis, Alabama. The Demopolis Facility is expected to have annual production volume of 360,000 MTPA that will be sold through Pinnacle's contracted backlog of long-term, take-or-pay off-take contracts. Commissioning the Demopolis Facility with initial industrial wood pellet production is expected in the second quarter of 2021.

The Demopolis Facility and Aliceville Facility will operate under a single partnership between Pinnacle, The Westervelt Company ("TWC"), a diversified land resources company, and Two Rivers Lumber Company, LLC ("TRL"), a McElroy Enterprises company, each holding a 70%, 20% and 10% interest, respectively. Under the terms of the partnership, Pinnacle will operate the Demopolis Facility and manage all aspects of customer relations, marketing, sales, and logistics. Anticipated capital costs to construct the Demopolis Facility are expected to be approximately US$99 million, and Pinnacle will fund its portion of the capital costs from draws on its existing credit facilities. Pinnacle expects the capital cost to be toward the upper end of its capital cost to run-rate EBITDA ratio target range. With the addition of the Demopolis facility, Pinnacle will have over 44% of its run-rate production capacity outside of the B.C. fibre basket.

High Level

Construction of the High Level Facility progressed in Q4 2019 and is now in a planned suspension due to winter weather conditions until spring 2020. Review of budget and schedule has resulted in additional capital required of $6 million, bringing the total to $60 million, with Pinnacle's 50% share being $30 million. The High Level Facility is expected to be completed as planned in Q4 2020. The budget overruns are largely a result of site preparation issues and rail siding scope changes. As planned, on site work is halted until spring 2020 when warmer temperatures will allow for construction to continue. Tolko has indicated that additional fibre will be available for upcoming years due to forest fire log processing, providing a strong supply of fibre for commissioning. We are confident that this will enable our High Level Facility to produce 200,000 MTPA, compared to the previously stated range of 170,000 MTPA to 200,000 MTPA. We also expect to achieve a capital cost to run-rate EBITDA ratio within our target range.

Williams Lake and Meadowbank

Upgrades at our Williams Lake and Meadowbank Facilities are progressing on schedule. These upgrades will provide further capabilities to manage increased harvest residuals in B.C. facilities and are expected to be completed and begin commissioning in Q1 2020 and Q3 2020 respectively. These upgrades will enhance the operating flexibility of the facilities and position Pinnacle to adapt to cyclical changes in wood fibre supply within the B.C. interior. Furthermore, the equipment, technology and infrastructure improvements will result in improved facility operating efficiencies, lower emissions, local employment opportunities and greater overall facility safety. The upgrades to these facilities will result in an increase in production of 80,000 MTPA.

Smithers

We finalized plans to install a chipper and additional pelleter at the Smithers Facility, in which we have a 70% interest, for a total capital cost of approximately $6.0 million (Pinnacle's portion amounting to $4.2 million). We will take advantage of the incremental available fibre in the region. We anticipate that the upgrade will decrease costs and increase production run-rate output by approximately 15,000 MTPA. Pinnacle will fund its portion of the capital costs from draws on its existing credit facilities. We expect the capital cost of this expansion will be toward the upper end of our capital cost to run-rate EBITDA ratio target range. The project is expected to begin in Q1 2020, with completion expected in Q3 2020.

Appointment of Chair to the Audit committee

On November 12, 2019, the Company announced the appointment of Rex McLennan to serve on the Company's board of directors, effective November 12, 2019. On January 15, 2020, the board of directors passed a resolution appointing Mr. McLennan as chair of the Audit Committee.

MARKET UPDATE

Global demand for industrial wood pellets remains strong as the shift toward renewable power generation continues, largely motivated by the introduction of regulatory frameworks that set targets and create incentives for the reduction of greenhouse gas 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 (UK), the Renewable Energy Directive (EU), the Best Energy Mix (Japan) and the Renewable Portfolio Standard (South Korea).

In the United Kingdom ("UK"), Drax Group plc have recently demonstrated pilot scale carbon capture and storage using wood pellets as biomass fuel in a program called BioEnergy Carbon Capture & Storage ("BECCS"). BECCS will provide carbon negative generation capability, which could encourage further policy support from the UK government, as it would allow the UK to reach carbon goals more quickly. BECCS technology could in time be employed beyond the UK. If the Drax Group is successful with their BECCS proposal, this would significantly increase the future demand for pellets.

Japanese demand remains strong as various feed-in tariff (FIT) new build projects slowly begin to come on-line. Pinnacle expects volumes in Japan to grow consistent with market demand as most FIT new build projects in Japan have now contracted their fuel. The next growth wave for wood pellets in Japan is expected to be the conversion of existing coal fired stations to some degree of co-firing with biomass. This could create additional biomass demand in that country. The regulatory framework for this initiative has been developed for implementation by 2030.

Pinnacle's Korean independent power producers (IPP) counterparties are in the midst of constructing their new build power stations. Shipments are expected to start in the second half of 2020.

The European Union (EU) commissioned consultants to develop guidance for EU sustainability which would come into effect by 2030. We expect that this will further underpin the need for sustainable biomass in the EU and will support the demand for wood pellets in Europe. Pinnacle shipments to the Netherlands will start to ramp up in 2020 as the co-firing effort there intensifies. Three of our European contract counterparties including Drax and RWE will benefit to various degrees by the recent approval of the EU Commission of the UK Capacity Market in respect of its compliance with State Aid regulations. This should improve the profitability of those companies. We expect this to reflect positively on their business in the longer term and therefore on their ability to consume biomass beyond the current subsidy horizon.

The coal phase-out proposed by the German Commission on Growth, Structural Change and Employment is expected to lead to legislation that should provide a phase-out of the use of coal for electrical generation in Germany by 2038. The German Government has announced plans to exit coal three years earlier than the 2038 deadline set by the Commission. German federal ministers and representatives of four coal mining states reached an agreement in January 2020, whereby, the German Government agreed to pay utility companies up to 4.35 billion euros collectively for the early exit, in addition to the 40 billion euros already promised to coal mining regions. Currently about one third of German power is derived from coal fired power stations, generating approximately 41 gigawatts of energy. If a portion of that generative capacity is converted to run on biomass fuels in order to ensure that stability can continue to be provided to the electrical grid from dispatchable generation units, the phase out of coal could provide further impetus for wood pellet demand as base load fuel in Germany.

OPERATIONAL UPDATE

Existing Production Facilities

The sawmill curtailments and reductions in sawmill residual deliveries in B.C. have continued to impact the operating performance of our production facilities in B.C. during Q4 2019. Additionally, disruption from the CN strike delayed progress in operating improvements. Same facility production in the fourth quarter of 2019 was down 4% compared to the fourth quarter of 2018 after consideration of lost production from the CN disruption and a scheduled capital shut down at the Burns Lake Facility. We have improved the sustainability and consistency of fibre supply at our B.C Mills from Q3 2019, however lower production levels that reduce operating leverage and higher fibre and fibre processing costs and cash conversion costs continue to pressure B.C. facility adjusted gross margin.

Total production costs in Q4 2019 were lower than Q4 2018, primarily due to high start up costs incurred at the Aliceville Facility in Q4 2018 and repair and maintenance costs incurred at the Entwistle Facility in Q4 2018.

Q4 2019 saw the completion of our first full year of production and operations at our Smithers and Aliceville Facilities. Aliceville saw the year continue to progress with quarter over quarter production volume increases and we successfully ended the fourth quarter with record production volumes at the Facility, representing an over 50% increase over Q4 2018 production. The Smithers Facility met our production expectations during its first year of commissioning.

Shipping

From January 1, 2020 onwards, ships will only be allowed to use fuel oil with a very low sulphur content, under rules brought in by the International Maritime Organisation. This cut in sulphur content has been more than a decade in the planning, and almost all shipping around the world is expected to comply, or face penalties. Q4 2019 was impacted by our shipping partners pulling ships out of service in order to retrofit them for this new regulation. As a result, Pinnacle experienced higher fuel costs for shipping that were not able to be fully recovered from our customers. With our shipping partners having completed the retrofit of their ships and following negotiations with our customers, we do not anticipate these incremental costs occurring in the future.

Fibre

The ongoing impact of curtailments and coarse fibre supply stabilized in Q4 2019, except for an uncharacteristically longer downtime by B.C. sawmill suppliers over the December holiday period, reflective of low lumber prices. The steps taken by our fibre and capital teams to prepare and plan for Q4 2019 resulted in a more consistent supply of fibre to our B.C. facilities during the quarter. The longer closures by suppliers over the holidays, resulted in even greater reliance on harvest residuals at the end of the year. Our facilities utilized stock pile fibre and harvest residuals during this period in order to supplement production.

The Company continued to invest in strategic fibre inventories in 2019. At the end of Q4 2019, the Company had built up enough fibre inventory to sustain two months of production activity at its B.C. facilities. This has increased by approximately one week since the end of Q3 and was done in order to mitigate the impact of fluctuations in fibre availability. The Company will continue to invest in fibre inventories in Q1 2020, ahead of the spring break up in logging by B.C. sawmills. At the end of Q4 2019, the Company had accumulated a consistent fibre supply and held fibre inventory valued at $14.0 million, compared to $7.6 million in Q4 2018 and $12.9 million at the end of Q3, 2019. We have increased our harvest residual breakdown capabilities by increasing the number of biolog chippers from two units in 2018 to eleven units in Q4 2019, to manage fibre processing and cash conversion costs.

We continue to collaborate with government, local communities, and First Nations to expand fibre availability and reduce costs in B.C. with programs that enhance community fire protection, regional safety, and forest stewardship. We continue to work 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 within their communities. To ensure long-term fibre security and margin stability, we will have approximately 44% of our run-rate production capacity outside of B.C. once our announced production expansion has been completed.

The Alberta government has increased annual logging volume from public lands by 30 per cent, while continuing to manage the province’s forest resource in a healthy and sustainable fashion. This will result in additional fibre supply for our facilities in Alberta and will align with our plans to diversify additional fibre supply from outside of B.C.

As part of our ongoing actions to address sustainable fibre supplies to fill the shortfall in supply of sawmill residuals, we entered into a three-year fibre supply agreement with Alkali Resource Management Ltd. ("ARM") whereby ARM will process, store and deliver biomass from harvest residuals to Pinnacle for use at the Williams Lake Facility. ARM is the forest management company wholly-owned by the Esk'etemc Nation, whose traditional territory is south of Williams Lake. Pinnacle and the Esk'etemc Nation have been collaborating to improve fibre utilization and to support economic development within Esk'etemc managed forests. This agreement helps diversify our fibre supply and support the First Nation communities we operate in.

In addition to the actions above, we successfully became party to the award of two contracts with B.C. Timber Sales ("BCTS") in order to access non-mill fibre residuals in the form of biologs. BCTS manages about 20% of the province's allowable annual cut for Crown timber and has suitable fibre available in areas that are economic to our facilities. These contracts will provide an additional source of fibre as part of our initiative to secure a consistent and sustainable fibre supply at our B.C. facilities.

On average, harvest residuals and biologs have a higher cash conversion cost than sawmill residuals, resulting in higher drying and trucking costs for an equivalent amount of oven dried tons (ODT's) of fibre. While the fibre team worked to ensure fibre availability for continued production at our B.C. facilities, when compared to prior years, these factors led to higher fibre, fibre delivery, and repair and maintenance costs due to increased wear on production equipment.

During the fourth quarter, we successfully applied and received funding from the Forest Enhancement Society of British Columbia ("FESBC") amounting to approximately $1.5 million. The FESBC was established to advance and advocate environmental and resource stewardship of B.C. forests. This funding will be used to help offset our incremental costs resulting from the use of harvest residuals and biologs.

We continue to actively collaborate with our B.C. partners with whom we jointly own wood pellet production facilities, namely Canfor Corporation ("Canfor"), West Fraser, and Tolko Industries as well as other major suppliers, including Interfor Corporation and Weyerhaeuser Company to further refine and optimize the fibre procurement mitigation strategies.

FINANCIAL HIGHLIGHTS

We refer the reader to the section entitled "Non-IFRS Measures" 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.

Selected financial highlights include the following:

	Q4 2019	**Q4 2018**	**Fiscal 2019**	**Fiscal 2018**	**Fiscal 2017**
(In thousands $)	**13 weeks**	**13 weeks**	**52 weeks**	**52 weeks**	**52 weeks**
Revenue	**91,465**	103,728	**377,808**	347,440	292,727
Production costs	**60,334**	73,472	**258,547**	233,107	188,414
Distribution costs	**13,793**	13,371	**54,021**	46,899	38,421
Selling, general and administration expenses	**4,747**	3,933	**18,495**	22,789	15,268
Amortization	**10,300**	7,324	**39,997**	24,782	21,819
Net profit (loss)	**(3,241)**	7,439	**(9,974)**	2,685	(4,884)
Adjusted Gross Margin*	**16,417**	16,662	**64,980**	67,640	66,920
Adjusted Gross Margin Percentage*	**17.9%**	16.1%	**17.2%**	19.5%	22.9%
Adjusted EBITDA*	**11,282**	13,830	**47,173**	55,102	56,121
Free Cash Flow*	**2,951**	8,214	**17,170**	32,192	38,056
Net profit (loss) per share attributable to owners					
Basic and diluted	**(0.12)**	0.22	**(0.33)**	0.05	(0.22)
Selected Consolidated Statements of Financial Position Data					
Total assets			**629,911**	627,294	433,645
Total non-current financial liabilities			**322,165**	317,302	318,811
Dividend declared			**19,938**	12,868	-

(In billions $)	**Dec 27, 2019**	**Dec 28, 2018**
Contracted Backlog	7.0	5.9

* See "Non-IFRS Measures".

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. See the "Financial Risk Factors" section of this MD&A and the risk factors identified in our AIF.

CONTRACTED BACKLOG

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

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

Our expected future industrial wood pellet sales under our Contracted Backlog as of December 27, 2019 is as follows ($ billions):

Fiscal 2020	0.5
Fiscal 2021	0.5
Fiscal 2022 and thereafter	6.0
Total product sales under Contracted Backlog	**7.0**

FACTORS IMPACTING COMPARABILITY OF OUR FINANCIAL RESULTS

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

Entwistle Restart

As previously disclosed, our Entwistle Facility sustained damage to its dryer and surrounding equipment on February 11, 2019 and caused the Facility to stop production. We restarted the dryer at Entwistle as planned in early November and we have finished the rebuild, restarted the furnace, and are in the process of commissioning the new equipment. On March 29, 2019, the Entwistle Facility resumed partial operations using dry fibre as we commenced rebuilding the dryer and the surrounding equipment. We have been actively working with our customers and partners to mitigate the impact of the anticipated 2019 production shortfall. We have been working with our insurance providers to determine the insurance recoveries available for the capital costs incurred to rebuild the dryer and the related damaged equipment, incident response costs, fixed overhead costs for the dryer side, and costs related to business continuity and lost profits from business interruption.

In Q1 2019, $9.4 million of asset impairment charges were recorded in connection with the Entwistle Incident, reducing property, plant and equipment on the statement of financial position and lowering net profit for the period. The impact has been partially offset by property insurance proceeds of $9.0 million (net of deductibles) received year-to-date which has been recognised in net profit (loss). At the end of Q4 2019, a total of $13.0 million for business interruption insurance has been recognised in net profit (loss) as a reduction of production costs, of which $4.5 million was recognised in Q4 2019. As at December 27, 2019, $7.1 million has been received in cash for business interruption insurance and $5.9 million has been included in other receivables.

Total capital costs and other expenses required to replace the dryer and restore the Entwistle Facility to the planned operating run rate are estimated to be approximately $23.5 million. The capital asset portion of this amount is estimated to be approximately $14.0 million, of which $13.3 million has been incurred and capitalized year-to-date. Approximately $9.5 million of remaining costs relate to fixed overhead, other expenses, and incident response costs, of which $9.1 million has been incurred year-to-date. Of the $9.1 million of fixed overhead, other expenses and incident response costs incurred year-to-date, $1.3 million was recorded in Q4 2019. The remaining amount will be incurred through Q1 2020 as we return the Entwistle Facility to its pre-incident commissioning curve.

As part of business continuity activities while the Entwistle Facility produces reduced volumes, we will undertake mitigating activities and may incur additional costs as we purchase third party wood pellets, work with customers to repurchase wood pellet obligations, source additional dry fibre for the Entwistle Facility, and source additional fibre at our other facilities to increase production. Business continuity costs, as incurred, may reduce gross margin and net income in Fiscal 2020 until the Entwistle Facility resumes full operations. Business continuity costs cannot be fully estimated at this time as they are subject to negotiation and market conditions.

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

Implementation of IFRS 16

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

We have elected to apply the modified retrospective approach upon early adoption at December 29, 2018, measuring the ROU asset at an amount equal to the lease liability, which resulted in no change to deficit. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed in Note 2 to the Consolidated Financial Statements. Additional information is outlined in the section "CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS - Recently Adopted Significant Accounting Standards".

IPO and capital structure

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

RESULTS OF OPERATIONS

Analysis of Results for Q4 2019 and Fiscal 2019:

(In thousands $)	Q4 2019	Q4 2018	Change	Fiscal 2019	Fiscal 2018	Change
MT('000) of industrial wood pellets sold	**419**	473	(11.4%)	**1,722**	1,607	7.2%
Revenue	**91,465**	103,728	(11.8%)	**377,808**	347,440	8.7%
Costs and expenses						
Production	**60,334**	73,472	(17.9%)	258,547	233,107	10.9%
Distribution	**13,793**	13,371	3.2%	54,021	46,899	15.2%
Selling, general and administration	**4,747**	3,933	20.7%	18,495	22,789	(18.8%)
Amortization	**10,300**	7,324	40.6%	39,997	24,782	61.4%
	89,174	98,100	(9.1%)	**371,060**	327,577	13.3%
Profit before finance costs and other income (expense)	**2,291**	5,628	(59.3%)	**6,748**	19,863	(66.0%)
Finance (cost)/ income	**(5,203)**	1,828	-	(24,178)	(2,955)	718.2%
Other income (expense)	(575)	1,626	-	5,151	(15,638)	-
	(5,778)	3,454	-	**(19,027)**	(18,593)	(2.3%)
Net loss before income taxes	**(3,487)**	9,082	-	**(12,279)**	1,270	-
Income tax recovery						
Deferred income taxes	246	(1,643)	-	2,305	1,415	62.9%
Net loss	**(3,241)**	7,439		**(9,974)**	2,685	-
Impact of:						
Entwistle Incident*	2,305	N/A	-	2,820	N/A	-
Net (loss)/income (excluding above impact)	**(5,546)**	7,439	**-**	**(12,794)**	2,685	-

* Tax effected at 27%.
** 2019 results include the adoption of IFRS 16 *Leases*, from December 30, 2018, on a prospective basis. Comparative periods have not been restated.
*** 2018 results include the finalization of the Aliceville purchase price allocation and comparatives have been restated.

Revenue

Revenue for Q4 2019 totaled $91.5 million, a decrease of $12.3 million, or 11.8%, compared to $103.7 million for Q4 2018. As discussed above, this decrease was attributable to reduced production in the B.C. facilities with a greater concentration of harvest residuals and the Burns Lake maintenance capital shut as well as shipping delays as a result of the CN Rail strike in Q4 2019.

Revenue for Fiscal 2019 totaled $377.8 million, an increase of $30.4 million, or 8.7%, compared to 347.4 million for Fiscal 2018. This increase was attributable to higher sales volumes, mostly due to a full year of revenue contribution from the production and sale of pellets from the Smithers and Aliceville facilities, which together contributed limited production volume in Q1 – Q3 2018, offset by lower production volumes at our B.C. facilities due to sawmill curtailments and reductions in sawmill residual deliveries.

Production

Production costs were $60.3 million for Q4 2019, a decrease of $13.1 million, or 17.9% compared to $73.5 million for Q4 2018.

As discussed above, this reduction in total production costs was primarily due to high start up costs incurred at Aliceville in Q4 2018 and repair and maintenance costs incurred at our Entwistle Facility in Q4 2018. B.C. same facility production levels in Q4 were, however, lower compared to prior year, mainly due to the CN Rail strike, scheduled capital shut down at our Burns Lake Facility, as well a greater concentration of harvest residuals in order to replace the reduced sawmill residuals output.

Business interruption insurance recoveries of $4.5 million for lost net profit from the Entwistle Incident were recorded in production costs in Q4 2019. This amount offsets fixed overhead and incident response costs incurred from the Entwistle Incident of $1.1 million in Q4 2019 that are recorded in production costs.

Production costs were $258.5 million for Fiscal 2019, an increase of $25.4 million, or 10.9% from $233.1 million for Fiscal 2018, primarily due to an increase in sales volume, higher fibre and cash conversion costs in B.C. and increased costs incurred for third party wood pellet purchases.

The Entwistle Incident resulted in $7.3 million of costs for fixed overhead and incident response costs in production costs for Fiscal 2019. These costs were offset by the receipt of $13.0 million of business interruption insurance recognised in production costs for Fiscal 2019.

Distribution

Distribution costs were $13.8 million for Q4 2019 consistent compared to $13.4 million for Q4 2018. Distribution costs increased primarily as a result of a higher mix of CIF contracts and higher shipping contract prices in Q4 2019 compared to Q4 2018.

Distribution costs were $54.0 million for Fiscal 2019, an increase of $7.1 million compared to $46.9 million for Fiscal 2018, due to increased fuel freight charges resulting from the new rules surrounding sulphur content as discussed above, and a $2.2 million increase in port, demurrage and other costs as a result of higher shipment volumes, rate increases, and port delays.

Selling, general and administration

SG&A expenses were $4.8 million for Q4 2019, an increase of $0.8 million, or 20.7% compared to $3.9 million for Q4 2018. The increase was driven by an increase of $1.0 million for stock-based compensation as $0.8 million of accrued stock-based compensation expense in fiscal 2018 was reversed in Q4 2018 due to the share price decline in the quarter, $0.3 million for office expenses, $0.2 million for professional fees, and $0.1 million for personnel costs, partially offset by a decrease of $0.7 million for legal fees and $0.1 million for property, communications, and IT costs.

SG&A expenses were $18.5 million for Fiscal 2019, a decrease of $4.3 million, or 18.8% compared to $22.8 million for Fiscal 2018. After normalizing SG&A for Fiscal 2018 to take into account $4.3 million related to incremental stock-based compensation expense incurred in connection with the IPO, $1.2 million and $0.3 million of professional fees incurred in connection with the IPO and the Secondary Offering, respectively, and $1.2 million of legal fees related to a damage claim against one of our equipment suppliers as well as $1.1 million related to the acquisition of the Aliceville Facility, SG&A expenses increased by approximately $3.8 million from Fiscal 2018, primarily as a result of increased personnel, wage increases, and related travel and general expense.

Amortization

Amortization expense was $10.3 million for Q4 2019, an increase of $3.0 million, or 40.6% compared to $7.3 million for Q4 2018. The increase was primarily attributable to the additional amortization for property, plant and equipment related to the acquisition of the Aliceville Facility in Q4 2018 and the commencement of commercial production at the Smithers Facility during Q1 2019. In addition, the implementation of IFRS 16 starting in Q1 2019 resulted in an additional $2.2 million of depreciation expense in Q4 2019 related to the recognition of right-of-use assets.

Amortization expense was $40.0 million in Fiscal 2019, an increase of $15.2 million, or 61.4% compared to $24.8 million in Fiscal 2018. The increase was primarily attributable to the commencement of amortization for property, plant and equipment related to the start-up of commercial production at the Entwistle Facility at the end of Q2 2018, the acquisition of the Aliceville Facility in Q4 2018, and the commencement of commercial production at the Smithers Facility during Q1 2019. In addition, the implementation of IFRS 16 in 2019 resulted in an additional $8.2 million of depreciation expenses in Fiscal 2019 related to the recognition of right-of-use assets.

Finance costs

Finance costs were $5.2 million for Q4 2019, an increase of $7.0 million compared to interest income of $1.8 million for Q4 2018. Q4 2018 includes a $3.6 million fair value gain on foreign exchange derivative contracts compared to a gain of $0.3 million in Q4 2019. The remaining increase in costs can be attributed to an increase of $0.9 million in interest paid on debt facilities and an increase of $0.6 million in interest incurred on lease liabilities due to the implementation of IFRS16 in 2019.

Finance costs were $24.2 million in Fiscal 2019, an increase of $21.2 million from $3.0 million in Fiscal 2018. This increase was primarily due to a $7.5 million increase in interest on our credit facilities (reflecting increased draw on credit facilities to fund production capacity growth and significant investment in the Entwistle, Aliceville, and Smithers Facilities), an $8.3 million fluctuation in the fair value of foreign exchange derivative contracts (a $2.8 million fair value loss was recognised in Fiscal 2019, compared with a $5.6 million fair value gain recognised in Fiscal 2018), a $2.3 million increase in other finance costs primarily related to interest on lease payments from the implementation of IFRS 16, an increase in unrealized loss on foreign exchange of $3.3 million.

Other income (expense)

Other expenses were $0.6 million for Q4 2019 compared to other income of $1.6 million in 2018. Equity earnings in HPLP were $0.1 million in Q4 2018 compared to a loss of $0.3 million in Q4 2019. Disposals of property plant and equipment resulted in a loss of $0.8 million in Q4 2019 compared to a gain of $0.6 million in Q4 2018. Q4 2019 includes an insurance recovery of $1.0 million for property loss.

Other income was $5.1 million in Fiscal 2019 compared to other expense of $15.6 million for Fiscal 2018. Fiscal 2019 other income includes an $9.0 million gain on insurance recovery related to the Entwistle Incident and a $6.5 million gain on the settlement of a legal claim against a former equipment supplier partially offset by a $9.4 million impairment to machinery and other equipment related to the Entwistle Incident. Other expenses for Fiscal 2018 include a $21.8 million loss on conversion of shareholders' debentures, offset by a $3.6 million gain on conversion of Class B and Class D common shares, upon pre-closing capital changes completed in connection with the IPO.

NON-IFRS MEASURES

The measures below are used by management as key performance indicators for our business. Certain measures used by management are not recognised under IFRS.

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.

Adjusted Gross Margin Percentage

(In thousands $ except per MT amounts)	**Q4 2019** 13 weeks	**Q4 2018** 13 weeks	**Change**	**Fiscal 2019** 52 weeks	**Fiscal** 52 weeks	**Change**
Operating income	**2,291**	5,628	(59.3%)	**6,748**	19,863	(66.0%)
Selling, general and administration	**4,747**	3,933	20.7%	**18,495**	22,789	(18.8%)
Amortization	**10,300**	7,324	40.6%	**39,997**	24,782	61.4%
Equity earnings in HPLP	**(315)**	152	-	**573**	1,058	(45.8%)
Non-controlling interests	**(606)**	(375)	61.6%	**(833)**	(852)	(2.2%)
Adjusted Gross Margin	**16,417**	16,662	(1.5%)	**64,980**	67,640	(3.9%)
Adjusted Gross Margin per MT**	**39.18**	35.29	-	**37.74**	42.09	**-**
Adjusted Gross Margin Percentage	**17.9%**	16.1%	-	**17.2%**	19.5%	**-**
Impact of:						
IFRS 16	**2,026**	n.a	-	**7,796**	n.a	-
Entwistle Incident	**3,368**	n.a	-	**5,660**	n.a	-
Adjusted Gross Margin (excluding above impact)	**11,023**	16,662	(33.8%)	**51,524**	67,640	(23.8%)

** 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 17.9% for Q4 2019 ($39.18/MT), an increase from 16.1% in Q4 2018 ($35.29/MT). The increase was primarily due to a decrease in production costs as discussed above. Production costs in Q4 2019 include $1.1 million of costs associated with fixed overhead and incident response costs for the Entwistle Incident (Q3 2019 - $1.4 million). These costs are offset by $4.5 million of business interruption insurance receivable recorded in Q4 2019.

Adjusted Gross Margin Percentage was 17.2% for fiscal 2019 ($37.74/MT), a decrease from 19.5% in fiscal 2018 ($42.09/MT). The decrease was primarily attributable to an increase in revenues offset by an increase in production and distribution costs. Production costs include $7.3 million of costs associated with fixed overhead and incident response costs for the Entwistle Incident, offset by an amount of $13.0 million for business interruption insurance proceeds.

As a result of applying IFRS 16, Adjusted Gross Margin for Q4 2019 increased by $2.0 million (Fiscal 2019 $7.8 million) relating to lease payment expenses that were previously classified as operating leases under IAS 17.

Excluding the impact of IFRS 16 and the impact of the Entwistle Incident, Adjusted Gross Margin in Q4 2019 was $11.0 million (Fiscal 2019 $51.5 million).

Adjusted EBITDA

(In thousands $ except per MT amounts)	Q4 2019	Q4 2018	Change	Fiscal 2019	Fiscal 2018	Change
MT of industrial wood pellets sold	**419**	473		**1,722**	1,607	
Net profit (loss)	**(3,241)**	6,885	-	**(9,974)**	2,685	-
Income tax expense (recovery)	**(246)**	1,643	-	**(2,305)**	(1,415)	62.9%
Finance (income) costs excluding shareholder debentures (1)	**5,512**	(1,418)	-	**25,542**	3,192	700.2%
Amortization of equipment and intangible assets (2)	**9,877**	7,158	38.0%	**38,145**	24,348	56.7%
EBITDA	**11,902**	14,268	(16.6%)	**51,408**	28,810	78.4%
EBITDA Adjustments						
Stock-based compensation expense (recovery)	**136**	(833)	-	**1,020**	4,266	(76.1%)
(Gain) loss on disposal of PP&E and impairment (3)	**819**	(535)	-	**10,799**	(362)	-
Plant curtailment costs	**-**	80	-	**-**	235	-
Insurance recovery on Entwistle Incident	**(1,000)**	-		**(9,000)**	-	-
Gain on settlement of legal claim	**-**	-	-	**(6,461)**	-	-
Loss on conversion of shareholder debentures	**-**	-	-	**-**	21,881	-
Revaluation of Class B and Class D common shares	**-**	-	-	**-**	(3,563)	-
Other items (4)	**(575)**	850	-	**(593)**	3,835	-
Total Adjustments	**(620)**	(438)	-	**(4,235)**	26,292	-
Adjusted EBITDA	**11,282**	13,830	(18.4%)	**47,173**	55,102	(14.4%)
Adjusted EBITDA per MT**	**26.93**	29.24	(7.9%)	**27.39**	34.61	(20.8%)
Impact of:						
IFRS 16	**2,026**	N/A	-	**7,796**	N/A	-
Entwistle Incident	**3,157**	N/A	-	**3,862**	N/A	-
Adjusted EBITDA (excluding above impact)	**6,099**	13,830	(55.9%)	**35,515**	55,102	(35.5%)

** 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 costs exclude realized (gain) loss on derivatives and foreign exchange.

(2) Amortization of property, plant, and equipment ("PP&E") includes our share of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

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

(4) Other items include professional fees incurred in connection with the IPO in Q1 2018, legal fees related to pursuing a damage claim, and deduction for the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

Adjusted EBITDA for Q4 2019 was $11.3 million, $2.5 million lower compared to $13.8 million in Q4 2018. The decrease is attributable to lower revenues in Q4 2019 compared to Q4 2018, increased distribution and SG&A costs and an increase in other expenses.

Adjusted EBITDA was $47.2 million in Fiscal 2019, a decrease of $7.9 million from $55.1 million in Fiscal 2018. Increased revenue was offset by higher distribution costs; higher production costs, including higher cash conversion costs principally due to fibre mix constraints resulting in higher repair and maintenance expenses, higher fibre costs because of extended sawmill curtailments in the B.C. region, and costs associated with the Entwistle Incident, as discussed above, partially offset by the impact of IFRS 16 and business interruption amounts recoverable.

In Q4 2019, $1.3 million (Fiscal 2019 $9.1 million) of expenses were incurred related to the Entwistle Incident for fixed overhead, other expense, and incident response. In Q4 2019, we also recognized $4.5 million (Fiscal 2019 $13.0 million) of insurance proceeds receivable in connection with the Entwistle Incident for business interruption insurance proceeds that offset production costs for lost net profit as well as $1.0 million of insurance proceeds for property loss.

In Fiscal 2019, $13.0 million of business interruption insurance was recognised in net profit on the statement of profit (loss) as a reduction to production costs, partially offset by fixed overhead and incident response costs and other expenses of $7.8 million. We expect to recover additional costs through our business interruption insurance policies in future months. Excluding the net insurance benefit associated with the Entwistle Incident, Adjusted EBITDA was $43.3 million or $25.15/MT Fiscal 2019.

As a result of applying IFRS 16, Adjusted EBITDA for Q4 2019 has increased by $2.0 million (Fiscal 2019 $ 7.8 million) related to lease payment expenses that were previously classified as operating leases under IAS 17.

Excluding the impact of the Entwistle Incident and of applying IFRS 16, Adjusted EBITDA for Q4 2019 was $6.1 million (Fiscal 2019: $ 35.6 million.)

Free Cash Flow

(In thousands $ except per MT amounts)	**Q4 2019**	**Q4 2018**	**Change**	**Fiscal 2019**	**Fiscal 2018**	**Change**
Adjusted EBITDA	**11,282**	13,830	(18.4%)	**47,173**	55,102	(14.4%)
Maintenance capital expenditures (1)	**(4,417)**	(2,610)	69.2%	**(11,695)**	(8,059)	45.1%
Interest and finance costs, net	**(3,914)**	(3,006)	30.2%	**(16,308)**	(8,851)	84.3%
Mandatory amortization (2)	**-**	-	-	**(2,000)**	(6,000)	(66.7%)
Free Cash Flow	**2,951**	8,214	(64.1%)	**17,170**	32,192	(46.7%)
Impact of:						
IFRS 16	**2,026**	N/A	-	**7,796**	N/A	-
Entwistle Incident	**3,157**	N/A	-	**3,862**	N/A	-
Free Cash Flow (excluding above impact)	**(2,232)**	8,214	-	**5,512**	32,192	(82.9%)

Notes:

(1) "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 High Level Facility and Demopolis Facility to require $5.2 million in annual maintenance capital expenditures.

(2) Mandatory amortization was incurred in Q1 2019. Debt refinancing was completed in June 2019 and mandatory amortization has been deferred. There were no mandatory amortization payments made in Q4 2019 due to the debt refinancing completed in June 2019. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

Free Cash Flow for Q4 2019 was $2.9 million, a decrease of $5.3 million from $8.3 million in Q4 2018. The decrease is primarily due to a decrease of $2.5 million in Adjusted EBITDA, an increase of $1.8 million in maintenance capital expenditures and an increase in interest and finance costs of $0.9 million.

Free cash flow was $17.2 million for Fiscal 2019, a decrease of $15.0 million from $32.2 million in Fiscal 2018. The decrease is primarily due to a decrease in Adjusted EBITDA of $7.9 million, an increase of $3.6 million in maintenance capital expenditures, and an increase of $7.5 million in interest and finance costs, partially offset by the reduction of mandatory amortization of $4.0 million.

As a result of applying IFRS 16, Free Cash Flow for Q4 2019 has increased by $2.0 million (Fiscal 2019 $ 7.8 million) related to lease payment expenses that were previously classified as operating leases under IAS 17. Excluding the impact of the Entwistle Incident and of applying IFRS 16, Free Cash Flow in Q4 2019 was $-2.2 million (Fiscal 2019: $5.5 million).

SUMMARY OF CONSOLIDATED RESULTS AND CERTAIN PERFORMANCE MEASURES

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

	2019				2018			
(In thousands $ except per share amounts)	**Q4*** 13 Weeks	**Q3*** 13 Weeks	**Q2*** 13 Weeks	**Q1*** 13 Weeks	**Q4** 13 Weeks	**Q3** 13 Weeks	**Q2** 13 Weeks	**Q1** 13 Weeks
MT of industrial wood pellets sold	**419**	**423**	**478**	**402**	**473**	**421**	**385**	**328**
Revenue	**91,465**	**92,552**	**104,164**	**89,627**	**103,728**	**87,606**	**85,084**	**71,022**
Costs and expenses								
Production (2)	60,334	60,189	70,903	67,121	73,472	57,222	53,893	48,520
Distribution	13,793	14,457	13,005	12,766	13,371	12,360	13,138	8,030
Selling, general and administration	4,747	4,808	5,147	3,793	3,933	5,374	4,265	9,217
Amortization	10,300	10,067	10,028	9,602	7,324	6,719	5,381	5,358
	89,174	**89,521**	**99,083**	**93,282**	**98,100**	**81,675**	**76,677**	**71,125**
Profit (loss) before finance costs and other (income) expenses	2,291	3,031	5,081	(3,655)	5,628	5,931	8,407	(103)
Finance income (cost)	(5,203)	(4,813)	(7,389)	(6,773)	1,828	(4,360)	(41)	(382)
Other income (expense) (3)(4)	(575)	(71)	4,917	880	1,626	399	320	(17,983)
	(5,778)	(4,884)	(2,472)	(5,893)	3,454	(3,961)	279	(18,365)
Net profit (loss) before income taxes	(3,487)	(1,853)	2,609	(9,548)	9,082	1,970	8,686	(18,468)
Income tax recovery (expense)								
Deferred income taxes	246	394	(952)	2,617	(1,643)	(454)	(2,182)	5,694
Net profit (loss)	246	394	(952)	2,617	(1,643)	(454)	(2,182)	5,694
Net profit (loss) attributable to:	**(3,241)**	**(1,459)**	**1,657**	**(6,931)**	**7,439**	**1,516**	**6,504**	**(12,774)**
Owners of the Company	(3,847)	(1,695)	1,352	(6,617)	7,095	1,184	6,218	(12,633)
Non-controlling interests	606	236	305	(314)	344	332	286	(141)
Net profit (loss)	**(3,241)**	**(1,459)**	**1,657**	**(6,931)**	**7,439**	**1,516**	**6,504**	**(12,774)**
Net profit (loss) attributable to owners	(3,847)	(1,695)	1,352	(6,617)	7,095	1,184	6,218	(12,633)
Cumulative preferred dividends	-	-	-	-	-	-	-	(104)
	(3,847)	(1,695)	1,352	(6,617)	7,095	1,184	6,218	(12,737)
Net profit (loss) per share attributable to owners								
Basic and diluted	**(0.12)**	**(0.05)**	**0.04**	**(0.20)**	**0.22**	**0.04**	**0.19**	**(0.58)**

** Q1 – Q4 2019 results include the adoption of IFRS 16 *Leases*, from December 30, 2018, on a prospective basis. Comparative periods have not been restated.

Notes:

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

(2) In Q4 2019, $1.1 million of costs related to fixed overhead and incident response costs were reflected in production costs, $1.4 million, $2.7 million and $2.1 million were reflected in Q3, Q2 and Q1 2019 respectively. Business interruption insurance were also reflected in production costs, $4.5 million in Q4 2019, $4.0 million in Q3 2019 and $4.5 million in Q2 2019.

(3) Upon closing of the IPO in Q1 2018, a gain of $3.6 million (before-tax) was recognized on conversion of Class B and Class D common shares. In Q1 2019, $9.4 million of asset impairment costs and $3.0 million of insurance recoveries were recognized in relation to the Entwistle Incident. An additional $9.5 million of insurance recoveries were recognized in Q2 2019; $4.0 million was recognized in Q3 2019 and $5.5 million was recognized in Q4 2019.

(4) In Q1 2018, a $21.9 million (before-tax) loss and an associated $5.8 million deferred income tax recovery were recognized on conversion of shareholders' debentures upon closing of the IPO.

(5) Quarterly results for Q4 2018 and for each of the quarters in 2019 have been adjusted to reflect the impact of the finalization of the purchase price allocation for our Aliceville Facility as required by IFRS which increased amortization expense each quarter by less than $0.1 million. In addition, quarterly results for each of the quarters in 2019 have been adjusted to correct for an error identified in our inventory flow model in Q4 2019. Although the error identified is not considered material by the Company to each of the quarters, the Company corrected the prior quarters in the annual MD&A as the overall adjustment would have been significant to Q4 2019. The adjustment to net income/(loss) for each of the quarters was $-0.7 million respectively in each of Q1, Q2 and Q3 2019.

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 "Financial 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 our investments has come from cash flow from operating activities and/or our credit facilities. We believe our delayed draw facility under the Amended Facility, together with the proceeds from the IPO, will be sufficient to finance the Demopolis Facility, High Level Facility and our anticipated capital expenditures associated therewith. At this time, we do not reasonably expect any presently known trend or uncertainty to affect our ability to access our potential sources of liquidity.

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 $10.0 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 stockpiles.

Senior Credit Facilities

On June 14, 2019 the Company amended and expanded its credit facility to $530.0 million, comprised of a $65.0 million revolving line, a $280.0 million term loan, and a $185.0 million delayed draw term loan. The Amended Facility also extended the maturity date from December 13, 2022 to June 14, 2024.

Advances under the Amended Facility are available as Canadian dollar Prime-Based Loans, Banker's Acceptances ("BA") from the BA Lenders in Canadian dollars, BA Equivalent Loans from the Non-BA Lenders in Canadian dollars, US dollar Base Rate Loans, and LIBOR Loans in US dollars. Interest accrues daily at the applicable Bank Prime, BA, US Base or LIBOR rate 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 maximum margin of 3.00% and 4.00%, respectively. At December 27, 2019, the $280,000 term loan was in a CAD BA loan at 5.45% (2018: CAD BA loan at 5.03%) and the $19,200 revolver loan was a CAD Prime loan at 6.95% (2018: CAD Prime loan at 5.70%). At December 27, 2019 the $20,000 delayed draw was in a CAD Prime loan at 6.95% (2018: USD $37,100 BA loan at 8.00%).

During Fiscal 2019, we refinanced our outstanding term loan and delayed draw term loan and obtained a $280.0 million drawdown on our term loan under the Amended facility. At December 27, 2019, we had issued letters of credit totaling $1.0 million (December 28, 2018 - $1.4 million).

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 construction and commissioning phase including Entwistle, High Level and Smithers Facilities, among other adjustments. The primary debt covenants are the Senior Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The U.S. federal NMTC Debt is not included in the calculation of Senior 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.

Our credit agreement provides for calculation of the debt covenants prior to the application of IFRS 16. As at December 27, 2019 and December 28, 2018, the Company was in compliance with all debt covenants.

The Senior Credit Facilities are 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

(In thousands $)	**Fiscal 2019**	**Fiscal 2018**	**Change**
Cash flow from operations before net change in non-cash working capital	**52,974**	50,756	2,218
Net change in non-cash operating working capital	**(20,012)**	7,017	(27,029)
Financing activities	**13,115**	59,930	(46,815)
Investing activities	**(52,875)**	(118,797)	65,922
Other	**37**	214	(177)
Change in cash	**(6,761)**	(880)	(5,881)
Cash and cash equivalents, beginning of year	**18,028**	18,908	(880)
Cash and cash equivalents, end of year	**11,267**	18,028	(6,761)

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

Cash flow from operations before net change in non-cash working capital increased by $2.2 million to $52.9 million for Fiscal 2019, compared to $50.8 million for Fiscal 2018, mainly due to the receipt of a $6.1 million payment for business interruption insurance proceeds from the Entwistle Incident recognised in net profit on the statement of profit (loss) in Fiscal 2019 and $6.5 million in cash received from a legal settlement; offset by lower operating income in fiscal 2019 due to increased production and distribution costs.

Net change in non-cash working capital

The $20.0 million cash used in non-cash working capital was primarily due to an increase in cash outflows ($23.0 million) resulting from increased inventory levels compared to prior year as well as increased cash outflows resulting from an increase in accounts payable and accrued liabilities.

Financing activities

The $46.8 million decrease in financing activities in Fiscal 2019 was primarily due to the receipt of $70.0 million proceeds from the IPO in 2018 offset by the repayment of debentures of $28.6 million in 2018 with no corresponding cash flows in 2019.

Investing activities

The decrease in cash used for investing activities relates primarily to the acquisition of the Aliceville Facility in 2018 of $47.6 million (2019: $ nil); the receipt of $8.0 million insurance proceeds for property loss in 2019 (2018:$ nil) and decreased cash outflows relating to the purchase of property, plant and equipment in Fiscal 2019 compared to Fiscal 2018.

OUTLOOK

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

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

- continue to realize production and operating efficiencies in our existing production facilities to optimize EBITDA per MT;
- grow our business through the commissioning and operational execution of the Entwistle, High Level and Demopolis Facilities and other greenfield and brownfield project opportunities throughout North America;
- expand production capacity at existing production facilities, including that at the Aliceville Facility with our planned second phase capital program as well as facility upgrades at the Williams Lake and Meadowbank Facilities;
- make potential accretive acquisitions of industrial wood pellet producers in Canada or the U.S;
- increase our supply to European customers from our U.S. Southeast production facilities; and
- continue to capture our share of opportunities in the growing Asian marketplace as a result of our proximity to this market, which results in shipping cost advantages and our longstanding relationships with customers in the region.

The Q4 2019 restart of the Entwistle Facility and strong initial performance combined with the commissioning of the destoner will add production volume to Q1 2020 and throughout the year. The Entwistle Facility is expected to make a positive contribution to Adjusted EBITDA in Fiscal 2020. As our insurer monitors production ramp post restart, we expect to receive further business interruption insurance in Fiscal 2020. Final insurance recoveries of capital costs incurred for the rebuild are expected in Fiscal 2020 as well.

As Aliceville and Smithers facilities are both operating at full production run-rate, incremental production volume and Adjusted EBITDA contribution is expected for 2020

CN Rail service has continued to impact our ability to get production to port, and has caused production disruption in Q1 2020. The January derailment in B.C. damaged Pinnacle leased railcars and resulted in lost pellets. Full recovery of costs from CN is expected. The derailment caused service disruptions which impacted production output for a period of clean up for which we will not be compensated. Ten straight days of cold weather in January caused CN Rail disruptions resulting in some additional facility downtime. In February 2020, CN Rail lines and B.C. ports have been disrupted by blockades resulting in downtime at our northern facilities. As our storage at B.C. facilities filled to capacity during the blockades and during the period of time it took to return CN service to required levels, we lost 20kMT of wood pellet production. Additional production, rail, shipping demurrage and management costs were incurred to manage the impacts of the operations disruption from the strike. We incurred additional costs to divert finished goods from our facilities for ship loading to different ports for some shipments. At this point, we estimated that approximately $2.0 million of Adjusted EBITDA will be missed in the quarter as a result of the CN and port blockades and the subsequent rail delays.

Production output of our B.C. sawmill suppliers has continued at consistently lower levels. Although current forecasts are for reduced stumpage costs for B.C. logs in mid-2020 and improved sawmill economics, we continue to retain fibre inventories and employ other sourcing strategies to manage unforeseen disruptions.

We expect production and revenue to continue to be impacted through 2020, as will the Adjusted Gross Margin as our B.C. facilities continue to process a wider mix of harvest residuals. We remain focused on improving our fibre, fibre processing, haulage, and cash conversion costs.

The Company has reached an agreement with one of its shipping suppliers for the early termination of a contract which relates to a portion of our 2020 shipping volume. A replacement contract is in the late stages of finalization, under substantially the same terms, and no impact from the change in supplier is expected to our distribution costs.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

	Carrying amount	Contractual cash flows	Current	Between 2 and 5 years	More than 5 years
Non derivative financial liabilities					
Revolver loan	19,200	19,200	19,200	-	-
Term loan	280,000	280,000	4,200	275,800	-
Delayed draw loan	20,000	20,000	-	20,000	-
Lease liabilities	36,975	57,296	10,304	30,041	16,951

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 27, 2019 was $11.3 million (December 28, 2018 - $18.0 million).

We manage our credit risk on accounts receivable by reviewing individual sales contracts considering the length of the contract and assessing the credit quality of the counterparty. Board approval is required for contracts over $5.0 million. The significant majority of our sales are contracted with large utility customers. The trade accounts receivable balance at December 27, 2019 was $10.9 million (December 28, 2018 - $11.3 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 27, 2019 we had available liquidity of $57.1 million (December 28, 2018 - $49.1 million) from our debt facilities (excluding delayed draw) and cash balances and we forecast sufficient liquidity throughout Fiscal 2020. 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 27, 2019, our ratio of net debt to last twelve month Adjusted EBITDA was 6.3 times. This ratio was impacted because of the investment in the Aliceville Facility in Q4 2018, in significant new capacity from the Entwistle and Smithers facilities, and the expansion projects at Williams Lake, Meadowbank, and High Level have not yet generated their run-rate EBITDA. As these facilities reach their run-rate capacity, we expect these ratios to decline.

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 22 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. On June 28, 2019, we entered into two $50.0 million interest rate swaps totaling $100.0 million as hedges of the variability in cash flows attributable to movement in interest rates. The swaps expire on March 31, 2024 and require interest payments.

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 and COSO (2013). In designing such controls, it should be recognised that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

Procedures performed in 2019 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 (“ICFR”) during Q4 2019 that have materially affected, or are reasonably likely to materially affect, ICFR or disclosure controls.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

Critical Accounting Estimates and Judgments

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

The most significant accounting judgments and estimates that we have made in the preparation of the Consolidated Financial Statements are described in note 2 (d) to the Consolidated Financial Statements. These include measuring and valuing inventories, determining useful lives for property, plant and equipment, assumptions used in testing goodwill for impairment, determining fair values of assets acquired in acquisitions, assumptions used in valuing deferred tax assets and assumption used in determining provisions, consistent with that as described in the Consolidated Financial Statements.

Recently Adopted Significant Accounting Standards

<u>IFRS 16</u>

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

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

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

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

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

Also, in relation to those leases under IFRS 16, we have recognised depreciation and interest costs, instead of operating lease expense. For fiscal 2019, we recognised $8.2 million of depreciation charges and $2.4 million of interest costs from these leases.

As a result of applying IFRS 16, Adjusted Gross Margin, Adjusted EBITDA and Free Cash flow for Q4 2019 have increased by $2.0 million related to lease payment expenses that were previously classified as operating leases under IAS 17.

RELATED PARTY TRANSACTIONS

NPLP transactions

NPLP is owned 50% by us and 50% by non-related third parties. We will purchase industrial wood products from NPLP once the Facility is operational and earn revenue from sales of fibre and distribution fees. We will manage and administer the business affairs of NPLP 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.

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.

PWRH LLC transactions

PWRH LLC 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 WPI LLC. We manage and administer the business affairs of PWRH LLC.

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

Significant shareholder

Based on information provided by ONCAP, as at December 27, 2019 ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31.3% of the issued and outstanding common shares of the Company. ONCAP is ultimately controlled by Onex Corporation.

See Note 20 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 March 2, 2020 we had 33,359,570 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of March 2, 2020 an aggregate of 2,104,679 options to acquire Common Shares and 17,457 restricted share units representing the right to Common Shares are outstanding.

SUBSEQUENT EVENT

On January 23, 2020, USD $9,750 of NMTC debt was repaid by WPI LLC. This represents all of the state portion of the NMTC debt and reduces each of the amounts payable and receivable against the NMTC debt.

Additional Information

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