



PINNACLE RENEWABLE ENERGY INC.

ANNUAL INFORMATION FORM

Fiscal year ended December 27, 2019

March 31, 2020

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INTRODUCTORY INFORMATION / MEANING OF CERTAIN REFERENCES

Unless otherwise noted or the context otherwise indicates, all references in this Annual Information Form (the “**Annual Information Form**”) to the “Company”, “Pinnacle”, “we”, “us” or “our” refer to Pinnacle Renewable Energy Inc. together with its subsidiaries, on a consolidated basis. Certain terms used in this Annual Information Form are defined under “Glossary”.

Unless otherwise specified or the context otherwise requires, all information provided in this Annual Information Form is given as at December 27, 2019. All references to “\$” or “dollars” are to Canadian dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Certain totals, subtotals and percentages throughout this Annual Information Form may not reconcile due to rounding.

GLOSSARY

Certain terms used in this Annual Information Form have the following meanings:

“**CAGR**” refers to compound annual growth rate.

“**Contracted Backlog**” refers to the revenue to be recognized under IFRS under existing executed contracts assuming deliveries occur as specified in the contracts. Contract options and extensions are not included in Contracted Backlog until contractually committed.

“**Fiscal 2018**” refers to the 52-week period ending December 28, 2018.

“**Fiscal 2019**” refers to the 52-week period ending December 27, 2019.

“**Fiscal 2020**” refers to the 52-week period ending December 25, 2020.

“**Handy**” refers to smaller size cargo ships typically capable of loading between 12,000-30,000 metric tons of wood pellets.

“**Supramax**” refers to cargo ships typically capable of loading between 42,000-54,000 metric tons of wood pellets.

“**Panamax**” refers to mid-size cargo ships still capable of passing through the old locks of the Panama Canal, typically capable of holding 58,000-62,000 metric tons of wood pellets.

The following technical terms used in this Annual Information Form have the following meanings:

CIF: Cost, Insurance, Freight contracts whereby the seller assumes responsibility for the goods until the goods are received by the buyer (typically at the receiving port).

FOB: Free on Board contracts whereby the buyer assumes responsibility for the goods as soon as they are shipped.

GHG: Greenhouse Gas. Includes all atmospheric gases which absorb radiation in the thermal infrared spectrum. The Kyoto Protocol recognizes six that contribute to an ‘enhanced greenhouse effect’ (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride).

LTA: Lost Time Accident, which is any recordable case in which an employee loses one or more days from work due to an occupational injury or illness.

MT: Metric Ton; a unit of weight equal to 1,000 kilograms.

MTPA: Metric Tons per annum.

NON-IFRS MEASURES

This Annual Information Form makes reference to certain non-IFRS measures. These measures are not recognized measures under International Financial Reporting Standards (“**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 IFRS measures which are included in this Annual Information Form 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” and “Adjusted EBITDA”. 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.

“**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% interest in the Houston Facility (as defined below) and our 50% share of the High Level Facility (as defined below), and excludes the non-controlling interests of our minority partners in the Lavington, Smithers and Aliceville Facilities (each, as defined below).

For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see “Key Performance Indicators” and “Selected Consolidated Financial Information” sections of the Company’s Management’s Discussion and Analysis (“**MD&A**”) for the fiscal year ended December 27, 2019. A copy of the MD&A can be accessed under the Company’s profile on SEDAR at www.sedar.com, and on Pinnacle’s website at www.pinnaclepellet.com in the Investors section.

FORWARD LOOKING INFORMATION

This Annual Information Form 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. 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.

Discussions containing forward-looking information may be found, among other places, under “Development of the Business”, “Overview of Our Business”, “Risk Factors”, “Dividend Policy” and “Material Contracts”.

This forward-looking information includes, among other things, statements relating to:

- expectations regarding industry trends, industry supply and demand and the competitive landscape;
- market growth rates and our growth rates and growth strategies;
- our business plans and strategies, including the Development Blueprint (as defined below);
- our growth projects and projections for such projects;
- commissioning of the High Level Facility and Demopolis Facility (each, as defined below);
- re-commissioning of the Entwistle Facility (as defined below);
- improvements related to the Meadowbank Facility, Williams Lake Facility and Smithers Facility (each, as defined below);

- our competitive position in our industry, including our dependence on certain key customers;
- expectations with respect to increased European and Asian support for carbon reduction regulations;
- the volume of industrial wood pellets that we are able to sell;
- the price at which we are able to sell our industrial wood pellets;
- the amount of low-cost wood fibre that we are able to procure and process;
- expectations with respect to our dividend policy;
- our assessment of, and targets for, total metric tons of industrial wood pellets sold, including as a result of increased production from the Entwistle, High Level, Demopolis, Williams Lake and Meadowbank Facilities; and
- EBITDA and Adjusted EBITDA projections.

Forward-looking information contained in this Annual Information Form, is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to: build our local and international presence; retain key personnel; maintain and expand distribution capabilities; execute on our expansion plans, including with respect to the High Level Facility, the Demopolis Facility, the Williams Lake Facility, the Smithers Facility and the Meadowbank Facility; continue investing in infrastructure to support our growth; obtain and maintain existing financing on acceptable terms; manage currency exchange and interest rates; manage the impact of competition; respond to changes and trends in our industry or the global economy; and adapt to the changes in laws, rules, regulations and global standards that may impact our business are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, and is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the following risk factors described in greater detail under the heading "Risk Factors":

- potential competition from other businesses in the energy industry;
- foreign exchange and political, regulatory and tax conditions in foreign countries;
- actions of non-governmental organizations;
- our dependence on wood fibre supply;
- potential changes in legislation, regulations, government policies, incentives and taxes which support renewable energy;
- our products not complying with sustainability requirements;
- operational risks;
- environmental and occupational health and safety laws and regulations;
- requirement to maintain effective quality control systems;
- dependence on certain key customers;
- our reliance on our customers' businesses and creditworthiness;

- ability to access adequate port infrastructure by rail and barge to deliver our product to our customers;
- ability to manage our growth strategy effectively;
- potential competition from other industrial wood pellet producers;
- substantial future capital expenditure;
- loss of key personnel or an inability to attract new personnel;
- labour shortages or increased labour costs;
- financial flexibility associated with our level of indebtedness;
- an increase in the price or an interruption in the supply of electricity or natural gas;
- fluctuations in transportation costs and availability or reliability of shipping, rail, barge, or truck transportation;
- possibility of changes in forest tenure as a result of future Aboriginal land claims or settlements thereof;
- financial and liability risks in relation to partnerships;
- litigation;
- insurance;
- seasonal fluctuation risk;
- dependence on management information systems and exposure to cyber security risks;
- changes in accounting standards;
- changes to U.S. or Canadian tax laws and regulations;
- disease outbreaks may negatively impact our operations;
- our operations may be impacted by stakeholder activism;
- our operations may be impacted by climate change;
- volatility in the market price for Common Shares (as defined below);
- future sales of our securities causing the market price for Common Shares to fall;
- maintenance of adequate internal controls over financial reporting;
- no guarantee that dividends will be paid;
- any issuance of preferred shares may adversely affect the price of our Common Shares; and
- our trading price and volume could decline if analysts do not publish research or publish inaccurate or unfavourable research about us or our business.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those expressed in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in “Risk Factors” should be considered carefully by readers.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. 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. Accordingly, readers should not place undue reliance on forward-looking

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

All of the forward-looking information contained in this Annual Information Form is expressly qualified by the foregoing cautionary statements.

CORPORATE STRUCTURE

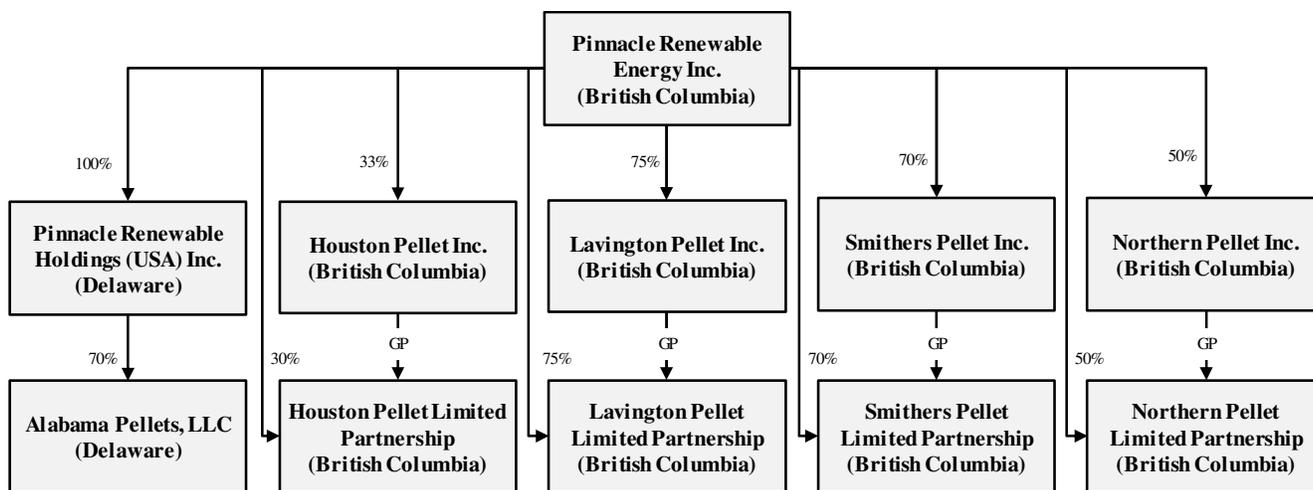
Incorporation and Head Office

Pinnacle Renewable Energy Inc. (formerly Pinnacle Renewable Holdings Inc.) was founded in Quesnel, British Columbia, Canada in 1989. On December 6, 2010, Pinnacle was incorporated under the *Business Corporations Act* (British Columbia) (“**BCBCA**”). In February 2018, we became a public company. Our common shares (the “**Common Shares**”) are listed and traded on the Toronto Stock Exchange (“**TSX**”). On December 29, 2018, Pinnacle Renewable Holdings Inc. completed a vertical short-form amalgamation under the BCBCA with its wholly-owned subsidiary, Pinnacle Renewable Energy Inc. In connection with the amalgamation, the Company changed its name from “Pinnacle Renewable Holdings Inc.” to “Pinnacle Renewable Energy Inc.” The Company's stock trading symbol on the TSX remains as PL and the Company commenced trading under its new name at the opening of trading on January 4, 2019. There were no changes in the share capital of the Company resulting from the amalgamation.

Our principal office is located at Suite 350, 3600 Lysander Lane, Richmond, British Columbia, Canada, V7B 1C3 and our telephone number is (604) 270-9613. Our registered office is located at 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2Z7.

Intercorporate Relationships

The following chart shows the Company’s material subsidiaries and business entities and the percentage of voting securities which are beneficially owned, or controlled or directed, directly or indirectly by Pinnacle.



DEVELOPMENT OF THE BUSINESS

OUR HISTORY

We were founded in 1989 and were 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 and acquired one industrial wood pellet production facilities (“**production facilities**”) in British Columbia, Canada (“**B.C.**”) to satisfy the growing demand from our customers. We built our management team and put in place processes and systems that contributed to us becoming a leading operator in the industrial wood pellet industry.

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

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

OTHER SIGNIFICANT EVENTS

Development of a greenfield pellet facility in Demopolis, Alabama

In 2019, we announced the development of a production facility in Demopolis, Alabama (the “**Demopolis Facility**”), which we will operate in partnership with The Westervelt Company (“**TWC**”), a diversified land resources company, and Two Rivers Lumber Company, LLC (“**TRL**”), a McElroy Enterprises company. Pinnacle will have a 70% interest in the partnership and TWC and TRL will have a 20% and 10% interest in the partnership, 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. The new facility will be located adjacent to an existing large sawmill in Demopolis, Alabama and in close proximity to the Aliceville Facility. The Demopolis Facility is expected to have an 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.

Development of a greenfield pellet facility in High Level, Alberta

In 2019, we announced the development of a production facility in High Level, Alberta (the “**High Level Facility**”), which we will operate in partnership between Pinnacle and Tolko Industries Ltd. (“**Tolko**”). Each of Pinnacle and Tolko will have a 50% interest in the partnership. Under the terms of the partnership agreement between Pinnacle and Tolko, Pinnacle will operate the High Level Facility and manage all aspects of customer relations, marketing, sales and logistics.

Construction of the High Level Facility progressed along with the anticipated development schedule through Q4 2020. Anticipated capital costs to construct the High Level Facility are expected to be approximately \$60 million. The High Level Facility is expected to be completed and start commissioning in Q4 2020. We expect the High Level Facility to have annual production volume of 200,000 MTPA that will be sold through Pinnacle's contracted backlog of long-term, take-or-pay off-take contracts.

Expansions of our British Columbia Facilities in Williams Lake and Meadowbank

In 2019, Pinnacle commenced construction of an expansion of our facilities in Williams Lake, B.C. (the “**Williams Lake Facility**”) and Meadowbank, B.C. (the “**Meadowbank Facility**”). This expansion project will increase both dryer and fibre processing capacity at both facilities.

These upgrades are progressing and will provide further capabilities to manage increased harvest residuals in British Columbia. In response to the health threat posed by COVID-19, the dryer upgrade project at the Williams Lake Facility has been put on hold until equipment vendors can travel onsite to safely commission the new equipment without being impacted by government imposed travel restrictions. Until the dryer upgrade project is completed, the Williams Lake facility will continue to operate with the current dryer in place as it did in 2019. The Meadowbank WESP is expected to be completed in Q3 2020. 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. We expect that the expansion will result in additional production capacity of 80,000 MTPA. Furthermore, the equipment, technology and infrastructure improvements will result in improved facility operating efficiencies, lower emissions, local employment opportunities and greater overall facility safety.

Development and Expansion of a greenfield pellet facility in Smithers, British Columbia

In 2018, we completed the development of our production facility in Smithers, B.C. (the “**Smithers Facility**”), which is owned 70% by Pinnacle and 30% by West Fraser Timber Co. Ltd. (“**West Fraser**”). The Smithers Facility commenced commercial production on December 29, 2018 at capitalised costs of \$29.8 million (70% of which were attributable to Pinnacle). The budget for the Smithers Facility was \$33.0 million. Total capitalised costs include costs incurred to bring the Smithers Facility to operate in a manner as intended by management, capitalised pre-operating commissioning costs, capitalised borrowing costs and the 2017 acquisition of land and operating infrastructure for \$8.4 million. Excluding capitalised pre-operating commissioning costs and capitalised borrowing costs, the total capitalised cost of the Smithers Facility was \$28.4 million.

In November 2018, we commenced initial pellet production. The Smithers Facility met our production expectations during its first year of commissioning and is currently operating at full run-rate production of 125,000 MTPA.

In 2019, we finalized plans to install a chipper and additional pelleter at the Smithers Facility for a total capital cost of approximately \$6 million. The chipper will improve our fibre processing capabilities, allowing us to reduce costs and increase production run-rate output by approximately 15,000 MTPA. The project initiated development in Q1 2020, with completion expected in Q3 2020.

Acquisition of an existing pellet facility in Aliceville, Alabama

On October 15, 2018, we completed the acquisition of a 70% interest in an operating industrial wood pellet production facility in Aliceville, Alabama (the “**Aliceville Facility**”) from TWC at a purchase price of US\$36.8 million. TWC retained a 30% interest in the Aliceville Facility and subsequently sold a 10% stake to TRL. We funded the purchase of our 70% stake in the Aliceville Facility through a draw on our credit facility and cash on hand. Pinnacle and TWC developed a US\$10 million capital spending program to improve safety, product quality and plant efficiencies to bring the facility up to run-rate capacity, with 70% of such costs being attributable to Pinnacle. The first phase of the capital program was completed in 2019. The capital spending program will be completed in 2020.

Run-rate EBITDA per MT is in line with our other production facilities and the capital cost of the Aliceville Facility, inclusive of the capital spending program, was within our target range of 4.0x to 5.5x run-rate EBITDA. The Aliceville Facility is currently operating at full run-rate capacity of 300,000 MTPA, above target at acquisition.

Development of a greenfield pellet facility in Entwistle, Alberta

In 2018, we completed the development of our wholly-owned production facility in Entwistle, Alberta (the “**Entwistle Facility**”), 95 kilometres west of Edmonton. The Entwistle Facility commenced commercial production on June 29, 2018 at capitalised costs of \$95.0 million (which include costs incurred to bring the Entwistle Facility to operate in a manner as intended by management, capitalised pre-operating commissioning

costs and capitalised borrowing costs).

On February 11, 2019, Pinnacle temporarily suspended operations at the Entwistle Facility due to an incident that occurred at the dryer area of the facility. The rest of the Entwistle Facility sustained little damage, enabling us to resume partial operations on March 29, 2019 as we rebuilt the dryer and the surrounding equipment. Full operations resumed in Q4 2019.

During the year, we worked closely with our customers and partners to mitigate the impact of the production shortfall resulting from the incident at the Entwistle Facility. We also worked with our insurance providers to determine the insurance recoveries available for the capital costs incurred to rebuild the dryer and the related damaged equipment, incident response costs, fixed overhead costs for the dryer side and costs related to business continuity and lost profits from business interruption.

As part of the rebuild, we implemented additional safety measures intended to ensure the drying process will continue 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 a de-stoner operation on time and within budget during Q4 2019.

OVERVIEW OF OUR BUSINESS

We are the third largest producer of wood pellets in the world. We produce renewable fuel for electricity generation in the form of industrial wood pellets, which are used by global utilities and large-scale power generators to produce renewable and reliable baseload power. We are a trusted supplier to our customers, who require reliable and high quality fuel supply to maximize utilization of their facilities. The industrial wood pellet industry is experiencing an extended period of rapid demand growth driven by increased European and Asian support for carbon reduction regulations, with end market demand growing at a 13% CAGR from 2014 to 2018 and expected to grow at a 15% CAGR through 2022. As one of only three large global suppliers, we currently operate nine production facilities with two in development that have a combined run-rate production capacity in excess of 2.8 million MTPA , and are well positioned to support growing demand through construction of new capacity.

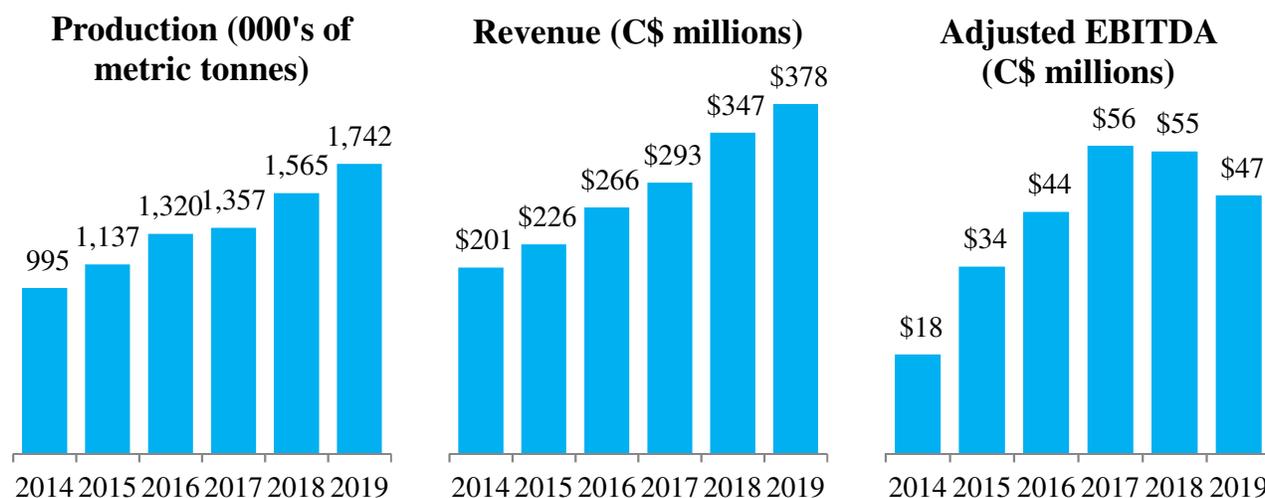
We have entered into long-term take-or-pay contracts with our customers, whereby the buyer has a firm obligation to purchase a fixed quantity of product at specific prices. With the inclusion of new contracts entered into during Fiscal 2019, we contracted 99% of our production capacity through 2026, on an aggregated basis, including new production capacity from the Demopolis, Entwistle and High Level Facilities, and increased capacity at the Smithers, Williams Lake and Meadowbank Facilities. As of December 27, 2019, our total Contracted Backlog was \$7.0 billion.

We have produced high quality, sustainably certified renewable energy fuel for our customers throughout our 30 years of operations. Our customers are large European and Asian power generators and Asian trading companies such as CGN Daesan, Drax, Lynemouth Power, Mitsubishi, RWE, Mitsui, Sumitomo, Toyota Tsusho and Uniper (or their affiliates). We believe that due to our reputation for quality we are one of the few major suppliers of industrial wood pellets to the largest and most demanding renewable power generators in Europe and Asia seeking a long-term source of industrial wood pellet supply.

We have a successful track record of processing a broad range of biomass in our industrial wood pellet making process. Through investment in log chippers, de-stoners and other specialized biomass processing equipment, as well as the development of operational knowledge in handling a diverse range of biomass feedstocks, we are capable of processing a broad spectrum of underutilized biomass residuals including whole logs, bush grind and other harvest waste residuals, as well as more traditional biomass residuals such as shavings and sawdust.

We source this material from sustainably certified forests. Our capabilities to process a wide range of wood fibre residuals into industrial wood pellets provide a meaningful value proposition for our forest industry partners as we allow them to utilize and capture value for the entire harvested tree, including wood fibre that was previously waste.

Annual Results of Operations



OUR OPERATIONS

Product

We convert renewable wood fibre into industrial wood pellets which are sold to power plant operators in various international markets. Industrial wood pellets produced by us are used in converted coal power plants, newly constructed dedicated biomass facilities and are also co-fired in coal power plants. Industrial wood pellets are handled much like coal by power plants; they are milled into powder, mixed with air and blown into a boiler for combustion to heat water, which produces steam to turn a turbine and generate electricity. Our industrial wood pellets are a low-cost and green substitute for coal. Life-cycle GHG emissions from the use of industrial wood pellets are lower than that of coal, with approximately 75% less ash content and approximately 80% less sulfur. Consequently, along with eliminating GHG emissions, replacing coal with industrial wood pellets also substantially reduces contribution to smog development, air quality deterioration and acid rain.

We operate a network of nine production facilities (with an additional two under construction) throughout Canada (B.C. and Alberta) and the U.S. (Alabama). Our production facilities are intended to operate 24 hours a day with limited downtime for maintenance. Each facility is capable of accessing and loading directly onto rail cars or barges. In Canada, our network of optimal processing locations coupled with our wholly-owned Westview Terminal (the “**Westview Terminal**”), create efficiencies and scale of production that would be very difficult for new market entrants to replicate. Further, the Aliceville and Demopolis Facilities in Alabama provide additional flexibility to Pinnacle by enabling it to deliver product to its customers from both the East and West Coast of North America.

	Annual Capacity ⁽¹⁾ (000s MTPA)	Production for the Fiscal 2019 (000s MTPA)
Existing Facilities ⁽²⁾	1,427	1,256
Commissioning / Ramp-Up Facilities ⁽³⁾	840	486
Facilities Under Construction ⁽⁴⁾	560	-
Total	2,827	1,742

Notes:

- (1) Annual capacity reflects management’s estimates of the effective annual capacities at each of our production facilities, taking into consideration the impact of regular required maintenance and other downtime events expected to occur during the normal course of operations. Actual production at our facilities may be above or below management’s estimate for the effective annual capacity.
- (2) Figures include facilities that were not commissioning or ramping-up in 2019. This includes 100% of production from the Burns Lake, Meadowbank, Williams Lake, Armstrong, Lavington and Houston Facilities (as defined below).
- (3) Figures include facilities that were commissioning or ramping-up to run-rate capacity in 2019, including:

- 100% of production from the Entwistle Facility, which commenced commercial production on June 29, 2018. Full run-rate production of the Entwistle Facility is expected to be 400,000 MTPA. Operations at the Entwistle Facility were temporarily suspended on February 11, 2019 due to an incident that occurred in the dryer area of the facility. Achievement of full run-rate capacity will be delayed due to this incident.
- 100% of production from the Smithers Facility, which commenced initial production on November 27, 2018.
- 100% of production from the Aliceville Facility. Run-rate production of the Aliceville Facility is expected to be 300,000 MTPA. Pinnacle and TWC developed a US\$10 million capital spending program to improve safety, product quality and plant efficiencies to bring the facility up to run-rate capacity.

(4) Figures include facilities that are under construction in 2020 including 100% of production from the Demopolis Facility (360,000 MTPA) and the High Level Facility (200,000 MTPA).

Burns Lake

The Burns Lake production facility (the “**Burns Lake Facility**”) is located in Burns Lake, B.C. and was commissioned in 2011. The Burns Lake Facility is 100% owned by Pinnacle and has gone through a series of operational enhancements since commissioning. Industrial wood pellets produced at the Burns Lake Facility are transported by rail and shipped through the Westview Terminal.

In 2016, a whole log chipping line was installed which has reduced wood fibre costs associated with processing logs at the Burns Lake Facility. This capability increases our wood fibre supply flexibility across our production facility network as the Burns Lake Facility has the capability to process a wide variety of wood fibre including shavings, sawdust, bush grind, chips, bio logs and hog with the option to direct pre-processed materials to other facilities to balance wood fibre supply across the plant network.

Meadowbank

The Meadowbank Facility is located in Strathnaver, B.C. and was commissioned in 2008. The Meadowbank Facility is owned 100% by Pinnacle. Industrial wood pellets produced at the Meadowbank Facility are transported by rail and shipped through the Westview Terminal or the Fibreco Export Inc. terminal (the “**Fibreco Terminal**”).

The Meadowbank Facility is a mid-sized production facility located near industry leading sawmills and plays an important role in our production facility network as it was specifically designed to process a wide array of wood fibre types (shavings, sawdust, bush grind, chips, bio logs and hog), which, similar to the Burns Lake Facility, allows us to direct pre-processed wood fibre to other production facilities. In 2019, a grinder was purchased for the Meadowbank Facility that will allow us to increase our fibre processing capability. The Meadowbank Facility is currently undergoing improvements as described above.

Williams Lake

The Williams Lake production facility (the “**Williams Lake Facility**”) is located in Williams Lake, B.C. and was commissioned in 2004 and subsequently expanded in 2007. The Williams Lake Facility is owned 100% by Pinnacle. Industrial bulk wood pellets produced at the Williams Lake Facility are transported by rail and are shipped through the Westview Terminal or the Fibreco Terminal.

The Williams Lake Facility is a mid-sized production facility that runs primarily on shavings and sawdust from sawmills but also has the capability to consume other wood fibre types such as bush grind. The Williams Lake Facility has historically been one of Pinnacle’s most consistent facilities in terms of daily production. The Williams Lake Facility is currently undergoing improvements as described above.

Armstrong

The Armstrong production facility (the “**Armstrong Facility**”) is located in Armstrong, B.C. and was built in the 1970’s. We acquired 100% of the Armstrong Facility in 2007. Industrial bulk wood pellets produced at the Armstrong Facility are shipped by rail to the Fibreco Terminal.

Despite being our smallest production facility, the Armstrong Facility has consistently delivered strong operating and safety results. The Armstrong Facility’s close proximity to the Lavington Facility allows both production facilities to benefit from each other’s wood fibre agreements. The Armstrong Facility primarily consumes sawmill shavings as its wood fibre input.

Lavington

The Lavington production facility (the “**Lavington Facility**”) is located in Lavington, B.C. and was constructed in 2015. The Lavington Facility is operated through a limited partnership (the “**Lavington Facility LP**”) that is owned 75% by Pinnacle and 25% by Tolko. The Lavington Facility LP is governed by a limited partnership agreement which contains, among other provisions, certain restrictions on a change of control and prohibitions on the sale, pledge or disposition by Pinnacle and Tolko of their respective interests in the Lavington Facility LP. Pinnacle is responsible for managing the Lavington Facility and its employees and providing marketing, sales and distribution services.

Tolko is the Lavington Facility’s largest wood fibre supplier, which results in a high level of economic alignment between the Lavington Facility and its source of fibre. The Lavington Facility primarily processes a mix of shavings and sawdust, and leverages both the latest technologies and our in-depth knowledge of the industrial wood pellet manufacturing process in an efficient and low cost production facility. In 2017, the Lavington Facility underwent further optimization of its pelleters and drying system which has increased production capacity by approximately 40,000 MTPA to approximately 300,000 MTPA.

Houston

The Houston production facility (the “**Houston Facility**”) is located in Houston, B.C. and was constructed and commissioned in 2006. The Houston Facility is operated through a limited partnership (the “**Houston Facility LP**”) that is owned 60% by Canadian Forest Products Ltd. (“**Canfor**”), 30% by Pinnacle and 10% by the Moricetown Band Development Corporation (the “**Moricetown Band**”). The Houston Facility LP is governed by a limited partnership agreement which contains, among other provisions, certain restrictions on a change of control and prohibitions on the sale, pledge or disposition by Canfor, Pinnacle and the Moricetown Band of their respective interests in the Houston Facility LP. Pursuant to a series of contracts that expire at the end of 2026, we are responsible for, amongst other things, managing the Houston Facility and its employees and providing marketing, sales and distribution services.

The Houston Facility is located adjacent to Canfor’s large Houston sawmill, with approximately 40% of its wood fibre coming to the production facility in the form of sawdust and shavings through a blow line directly from the Canfor mill. The remaining wood fibre is sourced from the surrounding region. Industrial wood pellets produced at the Houston Facility are transported by rail and are shipped through the Westview Terminal. Management is evaluating a bed dryer conversion project to ultimately replace the existing dryer system.

Entwistle

The Entwistle Facility is located in Entwistle, Alberta and was constructed in 2018. The Entwistle Facility is owned 100% by Pinnacle, and is strategically located on a CN main line and utilizes larger unit trains to transport wood pellets from the production facility to Pinnacle’s wholly owned Westview Terminal. Unit trains are capable of transporting large volumes of wood pellets, which allows Pinnacle to benefit from economies of scale and reduced transportation costs. Entwistle is also located in a region in close proximity to abundant wood fibre sources, including several major sawmills. Similar to the Burns Lake and Meadowbank Facilities, the Entwistle Facility is designed to process a wide array of wood fibre types including shavings, sawdust, bush grind, chips and hog. In Q4 2019, we completed the installation of a de-stoner at the facility which will allow us to process a broader spectrum of biomass residuals, increase production and lower repair and maintenance costs.

Smithers

The Smithers Facility is located in Smithers, B.C. and was constructed in 2018. The Smithers Facility is operated through a limited partnership (the “**Smithers Facility LP**”) owned 70% by Pinnacle and 30% by West Fraser. Industrial wood pellets produced at the Smithers Facility are transported by rail and shipped through the Westview Terminal.

The Smithers Facility is located beside West Fraser’s Pacific Inland Resources sawmill. West Fraser is expected to provide the majority of the wood fibre supply to the facility under long-term wood fibre purchase agreements. As our second smallest facility, the production processes at the Smithers Facility are simpler than many of our larger facilities, and commissioning was completed in line with our expectations. The Smithers

Facility is located approximately 360 kilometres from our Westview Terminal. The close proximity to the Westview Terminal reduces logistics costs associated with transporting wood pellets from the production facility to vessels for delivery to our end customers.

Aliceville

The Aliceville Facility is located in Aliceville, Alabama and was constructed in 2012. We acquired a 70% interest in the Aliceville Facility in 2018. The Aliceville Facility is operated by Alabama Pellets, LLC (“**Alabama Pellets**”), which is owned 70% by Pinnacle, 20% by TWC and 10% by TRL. Alabama Pellets is governed by a limited liability company agreement which contains, among other provisions, certain restrictions on a change of control and on the sale, pledge or disposition by Pinnacle, TWC and TRL of their respective interests in Alabama Pellets. Pursuant to a series of additional agreements, we are responsible for, amongst other things, managing the Aliceville Facility and its employees and providing marketing, sales and distribution services.

The Aliceville Facility has a run-rate production capacity of approximately 300,000 MTPA, of which approximately 210,000 MTPA is committed under a long-term off-take contract to a major European utility. Industrial wood pellets produced at the Aliceville Facility are transported by barge and shipped through the Port of Mobile, Alabama. Consistent with our strategy and similar to our operations in Western Canada, we have entered into long-term wood fibre supply contracts with several local sawmills to support operations at the Aliceville Facility. This includes TWC's sawmill located in Moundville, Alabama, which is an anchor supplier for the Aliceville Facility and ensures strong alignment between Pinnacle and TWC.

Securing Wood Fibre

Ability to Process Broad Range of Forest Residuals

We have developed capabilities to utilize a broad range of residual biomass in our industrial wood pellet production process. Through investment in log chippers, de-stoners and other specialized biomass processing equipment, as well as the operational knowledge we have developed in operating a diverse range of biomass feedstocks, we have developed the ability to process a broad spectrum of underutilized biomass residuals including whole logs, bush grind and other harvest waste residuals, in addition to more traditional biomass residuals such as shavings and sawdust. The feedstock mix at each of our production facilities ranges between 0% to 60% in non-traditional sources, like harvest residuals or underutilized sawmill biomass residuals, which we periodically adjust in order to optimize our wood fibre supply with the capabilities of our production facility network.

We believe that the capability to provide a complete residual wood fibre solution to our forest products industry partners provides a significant advantage over other potential partners that do not have similar capabilities. As a result, we are well-positioned to be a partner of choice for forest products industry participants seeking residual wood fibre off-take arrangements, and this operational flexibility assists in our ability to secure long-term wood fibre supply agreements on attractive terms. In addition, the ability to process a wide spectrum of biomass types provides significant flexibility to access a broad range of wood fibre supply and helps to mitigate the potential risk of wood fibre supply disruptions at our operations.

Overview of Long-Term Wood Fibre Supply Contracts and Counterparties

Our production facilities are strategically located in highly concentrated forest products regions near large networks of wood fibre suppliers and are typically anchored by a major regional sawmill with smaller players supplying the balance of required wood fibre volume. Historically, we have sourced the majority of our wood fibre needs under long-term contracts from high quality forest products company counterparties and maintained close working relationships with almost every major forestry company operating in North America. Typically, we are contracted to be the exclusive consumer of residuals from each of our counterparties and are entitled to the entirety of residuals produced by their processing facilities near our production facilities. In addition, we have joint ventures with some of our largest wood fibre suppliers, including Canfor, Tolko, West Fraser, TRL and TWC. These relationships ensure strong alignment between Pinnacle and our suppliers. Our other major suppliers include Interfor Corporation and Weyerhaeuser Company.

We utilize a similar wood fibre supply model for our operations at the Aliceville Facility as for our Canadian operations. As part of the acquisition of a 70% interest in the Aliceville Facility in 2018, Alabama Pellets entered into long-term wood fibre supply contracts for residuals with several large local sawmills,

including TWC's sawmill in Moundville, Alabama. TWC will remain an anchor supplier, ensuring strong alignment between Pinnacle and TWC. Similarly, the greenfield plants at the High Level and Demopolis Facilities will be supported by long-term fibre agreements with Tolko, TWC and TRL.

Our production facility diversity and purchasing power offers a unique proposition to wood fibre suppliers as the entire residuals basket (including sawdust, chips, bark and harvest residues) can be acquired and optimally allocated amongst our multiple production facility locations for efficient processing. We have wood fibre supply contracts through 2022 for approximately 70% of our raw material needs.

Wood Fibre Procurement Initiatives

In response to British Columbia forestry companies' lumber market related sawmill curtailment programs, we have implemented wood fibre procurement mitigation strategies. We have long-term supply contracts for wood fibre with major forestry companies. Under the contracts, the percentage of wood fibre that is acquired from the processing of sawlogs into lumber (sawmill residuals) compared to the percentage of wood fibre that is acquired as a by-product of the harvesting of timberlands to produce sawlogs (harvest residuals) shifts depending on the operating level of the sawmills. Accordingly, we now expect to receive a decreased supply of sawmill residuals (bark, sawdust and shavings) that can be acquired at a lower cost, and a higher proportion of more expensive harvest residuals (biologs and bush grind).

Pinnacle's operations are diversified across several different wood fibre baskets. Within B.C., Pinnacle's operations span across the Okanagan, Cariboo and Northern B.C. regions. The Company has continued to expand into new wood fibre baskets with the development of its greenfield projects in Alberta (the Entwistle and High Level Facilities) and Alabama (the Demopolis Facility), as well as its acquisition of the Aliceville Facility in Alabama. Current wood fibre conditions in B.C. further underline the importance of our recent expansion and diversification in Alberta and the U.S. Southeast. We remain well positioned to continue growing our platform and diversifying our operations across these new wood fibre baskets.

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. 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 are working with government agencies, First Nations, licensees and organizations like the Forest Enhancement Society of BC ("FES"), the Forests for Tomorrow Program and others to access that wood fibre and turn damaged stands back into thriving plantations that support communities, wildlife and the future forest sector. We are working with First Nations to develop opportunities for logging and chipping and increase the value they receive from their tenures in areas impacted by wildfire and the mountain pine beetles and create more jobs for their communities. The FES has funded projects that allow us to consume low quality timber that would otherwise be burned because it is too far away from manufacturing centres.

Converting Wood Fibre into Industrial Wood Pellets

The Conversion Process

We convert the input wood fibre into the final industrial wood pellet product to be shipped to our customers through a well-defined process.

Sourcing & Logistics: Raw wood fibre is delivered to the production facility by truck, either from nearby sawmills, or directly from the forest block. In cases where our production facility is located adjacent to a sawmill supplying wood fibre, dry residuals are delivered to our facility by way of a blow line. Wood fibre received comprises the full basket of residuals from our sawmill partners or other wood fibre suppliers, including bush grind, bio logs, bark and logging residuals, as well as sawdust and shaving. We strategically allocate raw wood fibre between our production facilities to optimize the wood fibre input mix across the network of our production facilities.

Grinding & Hammering: Much of the wood fibre that we receive needs to be pre-processed or milled into smaller particles prior to being formed into a pellet in order to achieve the optimal burn characteristics associated with the industrial wood pellet quality standard. To enhance the quality of our product, we have set a target of

reducing 95% of wood fibre entering the wood pellet forming process to fewer than two millimeters, of which 65% is ground to under one millimeter. This is accomplished on-site using equipment such as chippers, hammer mills, hoggers and biosizers to pulverize all wood fibre. Prior to, within and following the milling processing, non-combustible materials such as rocks and metal are removed with the use of magnets and air density separation equipment.

Drying: The final moisture content of industrial wood pellets has a significant impact on the quality and energy density of the industrial wood pellet. For an industrial wood pellet to achieve the optimal energy density and combustion rate, it needs to have a moisture content that is approximately 5%. The majority of wood fibre intake that we receive requires drying as it usually has moisture content between 10 - 55%. We achieve optimal moisture content by utilizing either bed drying or a rotary drum drying technology.

Pelletizing: Industrial wood pellets are created by taking the previously ground, hammered and dried wood fibre and putting it through a roll and die system known as a pelletmill. The pelletmill machines form an industrial wood pellet through a combination of temperature and pressure created as the wood fibre is forced through holes in the die by the rolls. The die is a large metal ring with tapered holes in it that work to provide the appropriate amount of resistance as the press rolls push the wood fibre through the holes in the die. The appropriate amount of resistance allows the wood fibre to heat up to approximately 130 degrees Celsius causing the natural lignin in the wood fibre to soften and fuse the particles together in cylindrical shape (6 millimetres in diameter) which breaks off or is cut into lengths of approximately 20 millimetres as the pellets are extruded from the die.

Cooling & Screening: After the pelletizing phase, the industrial wood pellets are air-cooled to approximately 20 degrees Celsius which resets the lignin and solidifies and strengthens the industrial wood pellets. This process creates a cohesive and durable industrial wood pellet. Once the industrial wood pellets have been cooled, they are passed over a vibrating screen to remove any fine material (particles less than 3 millimetres). Anything that passes through the screen is conveyed back into the pelletizing process or used as fuel in the drying process.

Storage & Load to Rail or Barge: Once the final industrial wood pellet is produced, safe storage and transportation is critical to ensuring a high quality product is delivered to the customer. Gentle handling of the product through storage, loading and transportation is also essential to minimize the amount of dust and fine material that is generated. At each of the production facilities, the industrial wood pellets are stored in silos and loaded onto either rail car (utilized by Pinnacle's facilities in B.C. and Alberta) or barge (utilized by Pinnacle's facility in Alabama) through conveyor and loading systems which we developed alongside our logistical partners.

Efficiently Transporting Industrial Wood Pellets to Customers

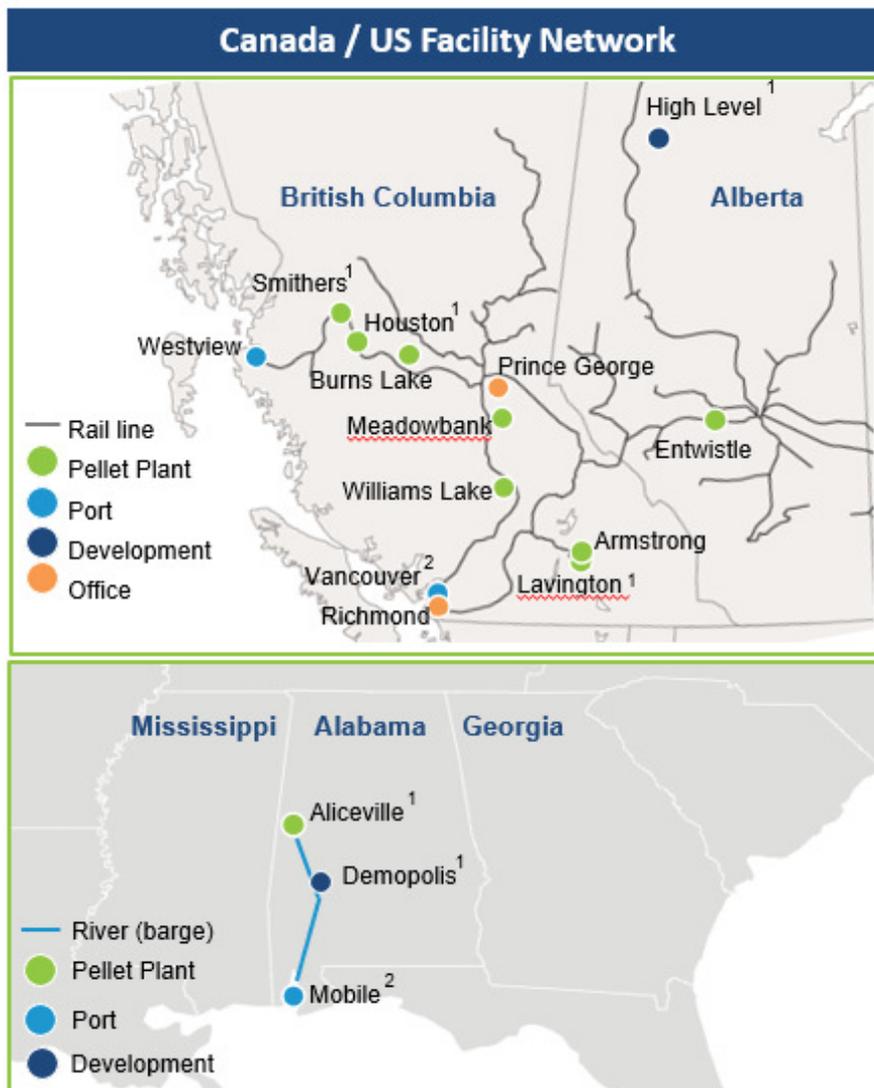
Transportation Infrastructure

In B.C and Alberta, we have access to a well-established rail infrastructure network, with all of our production facilities being accessible along CN rail lines. We have a long-standing relationship with CN that began in 2004, and a history of working with CN to find cost efficient methods to deliver our product to port for shipment to our customers. Notably, we began utilizing larger unit trains at our Entwistle Facility to leverage economies of scale at the plant to drive logistics costs down. The rail networks where we operate are well maintained and are major transport arteries for container and other bulk products (i.e. grain). We also have strategically positioned storage at various production and port facilities to mitigate potential transportation challenges or delays. If there are rail line disruptions, mitigating strategies can be deployed. While rail transportation is generally a reliable and cost-effective means of transporting our output from our network of production facilities, employees of CN went on strike on November 19, 2019 for a period of eight days. The strike resulted 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. and Alberta 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. This disruption to our scheduled shipping 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 a larger level of finished goods inventory on hand at year end.

We control the availability and capacity of the rail cars used to transport the industrial wood pellets produced at each production facility by using our fleet of 889 rail cars under leases with Wells Fargo Rail Corporation, Interstate Commodities, Inc., NuRail Canada ULC, TrinityRail Canada Inc., Midwest Railcar

Corporation, Southwest Rail Industries, Inc. and American Railcar Leasing LLC. Our operational and logistics systems track car loads on a daily basis to ensure cycle times are optimized across our network. Furthermore, we buy industrial wood pellets from smaller producers in Western Canada and transport this material to ports using our rail fleet, allowing us to further capitalize on logistics efficiencies through fleet usage optimization.

In Alabama, the Aliceville and Demopolis Facilities are located adjacent to the Tombigbee River system which drains into the Gulf of Mexico. The Aliceville Facility has four storage silos on site which allow for covered storage before the finished pellets are loaded onto barges. The Demopolis Facility will be constructed with two storage doors for storing finished pellets prior to barge loading. Once loaded onto barges, finished pellets are transported downriver and loaded directly onto vessels in the Port of Mobile, Alabama. Stevedoring and barging operations are currently contracted out to a third party. The existing stevedoring and barging agreement expires at the end of 2024.



Notes:

- (1) The Aliceville Facility (70%), Demopolis Facility (70%), High Level Facility (50%), Houston Facility (30%), Lavington Facility (75%) and Smithers Facility (70%) are partially-owned facilities.
- (2) Pinnacle does not own shipping terminals at Vancouver or Mobile ports.

Our shipping partners include Dampskibsselskabet Norden A/S, NYK Bulk & Project Carriers, MUR Shipping, Swire and Cargill Inc. These are large, established, international shipping companies capable of providing Handy, Supramax and Panamax-class vessels to support our bulk off-take contracts. Historically, we

have entered into back-to-back contracts with our shipping partners that match the life of our off-take contracts, thereby reducing the risk of ocean cost inflation. As our Contracted Backlog has grown, Pinnacle has increased the number of shipping partners to ensure we can continue to deliver our product to our customers in a cost efficient manner.

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 with 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 Western Canada based businesses expanding in Asian markets.

Port Infrastructure

Our port infrastructure is a critical element of our supply chain. Our operations in B.C. and Alberta ship pellets through our wholly-owned Westview Terminal and the Fibreco Terminal at the Port of Vancouver. In Alabama, pellets are shipped through the Port of Mobile. Our production facilities are strategically located to minimize logistical costs associated with both wood fibre procurement and plant to customer logistics costs, including port costs.

Westview Terminal

The Westview Terminal is located in Prince Rupert, B.C. and was developed and commissioned by us in January 2014. This was the first purpose-built, Panamax capable industrial wood pellet export facility in North America. We have a ground lease with the Prince Rupert Port Authority for the property on which the Westview Terminal is built with a 21-year term expiring in 2033. The lease has a 10-year renewal option at our sole discretion.

The Westview Terminal receives industrial wood pellets from rail cars, stores these in metal silos and ultimately loads the pellets into bulk cargo ships bound for overseas markets in Europe and Asia. Given the Westview Terminal’s importance to B.C.’s industrial wood pellet logistics system, we are able to generate incremental revenues by shipping third party volumes at the Westview Terminal. The Westview Terminal is connected to all of our operating production facilities through CN’s railway infrastructure. The Westview Terminal’s current configuration has an annual industrial wood pellet throughput capacity of 2.5 million MT compared with our current annual throughput of industrial wood pellets in 2019 of 1.1 million MT. Management believes that capacity could be increased beyond 2.5 million MTPA with minimal capital investment.

Ownership of the Westview Terminal creates a competitive advantage by reducing rail, port and ocean demurrage costs for industrial wood pellets produced in B.C. and Alberta production facilities. Additionally, management believes that its loading rates are faster than any other industrial wood pellet loading facility in the world and have steadily improved since it was commissioned in 2014.

Management believes that the Westview Terminal cannot be easily replicated on the west coast of Canada given the limited locations on the B.C. coast with deep water access and rail connectivity to a large network of production facilities and the extensive permitting required. Significant industrial wood pellet volumes would be required to justify the up-front capital investment required to build a facility similar to the Westview Terminal, which is well in excess of the volume of other producers within this region.

Fibreco Terminal

We have a long-term industrial wood pellet handling agreement with the Fibreco Terminal to process and ship industrial wood pellets from the Fibreco Terminal at the Port of Vancouver in North Vancouver, B.C. The agreement has been in place since 2005 and was extended in 2015 for an additional 4-year term. The agreement was extended for an additional 10-year term in 2019. Furthermore, the largest shareholder of the Fibreco Terminal is Tolko, which holds a 25% interest in the Lavington Facility and a 50% interest in the High Level Facility, which also ships through the Fibreco Terminal. In 2019, we shipped approximately 500,000 MT through the Fibreco Terminal.

Shipping industrial wood pellets through the Fibreco Terminal also allows us to both optimize our logistics chain as well as mitigate the risk of supply chain disruptions, should any logistical issues arise. This redundancy in shipping makes us a preferred choice for risk-averse utility customers, who also value the diversity of multiple loading ports in B.C.

Port of Mobile

Pellets from the Aliceville Facility and the Demopolis Facility are delivered to the Port of Mobile via barges, where they are directly loaded onto vessels for transport to our customers. This allows for pellets manufactured at these facilities to be loaded onto vessels without requiring their own dedicated port facility. The direct loading process also avoids the costs associated with terminal storage and reduces the risk of deteriorating the quality of the product by avoiding double handling of the pellets. Stevedoring services are provided by the same contractor that manages barging logistics for the Aliceville Facility. The agreement that governs both the barging and stevedoring services is in effect through the end of 2024.

Customers

We have a sales team with long-term relationships with large European and Asian power generators and major Asian trading houses, and a track record of building our Contracted Backlog. We enter into long-term, largely Canadian-dollar denominated, take-or-pay off-take contracts with large and well capitalized counterparties for the vast majority of our production capacity. Management anticipates that future contracts will continue to be with large customers and for long tenures. Currently, our largest customers are CGN Daesan, Drax, Lynemouth Power, Mitsubishi, Mitsui, RWE, Sumitomo, Toyota Tsusho and Uniper (or their affiliates) all of which are on long-term take-or-pay off-take contracts. In 2019, our top three customers accounted for 83% of our revenues.

Contracts are referred to as “take-or-pay” because they include a firm obligation to take a fixed quantity of product at a stated price and provisions that ensure we will be made whole in case a customer fails to accept all or a part of the contracted volumes. Our contracts also provide for annual inflation-based adjustments or price escalators. These contracts provide us with long-term sales visibility and stability of cash flows.

Depending on the specific take-or-pay off-take contract, shipping terms are either free on board (“**FOB**”) or cost, insurance and freight (“**CIF**”). For contracts with FOB terms, title and risk of loss transfers to the customer as the product is delivered on board the ship at the port in Canada and the customer is responsible for transportation and insurance costs. For contracts with CIF terms, title and risk of loss are covered by insurance when the product is delivered on board the ship at the load port in Canada, but we are responsible for arranging and paying for transportation to the destination port in Europe. Existing CIF shipping agreements provide for a decrease in overall freight rates through the use of Panamax-class vessels from the Westview Terminal. Additionally, we hedge against changes in bunker fuel costs through our off-take agreements with customers.

Our long-term contracts minimize exposure to pricing fluctuations in the short-term market. Current off-take contracts extend up to 18 years in duration, with a weighted-average remaining life of over 9 years. As the current off-take contracts expire, we will seek to re-contract capacity with a combination of renewals with existing customers and enter into contracts with new customers.

Sustainability

We have a commitment to sustainability that encompasses each level of our operations. Our products are made from a sustainably managed raw material supply, which predominantly consists of waste residuals that were formerly burnt as a means of disposal at either the producing sawmill or in the forest. We operate in one of the most sustainable regions in the world. In addition to the readily available supply of renewable electricity from biomass and hydro generation, B.C. and Alberta have more forest land certified as sustainable than any other jurisdiction in the world. Wood fibre sourced from our operations in the U.S. Southeast come from forests that are sustainably managed. Our wood fibre supply and our wood fibre suppliers are certified as sustainable under a number of internationally recognized forest certification programs, including the Programme for the Endorsement of Forest Certification, the CSA Group and the Sustainable Forestry Initiative. Pinnacle is also certified by the Sustainable Biomass Program.

These programs require that forest operations exceed or meet applicable laws and regulations, and adhere to the principals and criteria that are viewed as the basis of sustainable forest management globally, such as sustainable harvesting, replanting with native species, conservation of biodiversity and maintenance of wildlife

habitat, soil and water resources. As part of these certifications, third party audits are conducted that consist of thorough reviews of records in corporate offices and facility visits to review wood fibre procurement records and practices. Auditors also visit harvest sites to verify compliance.

In addition, we monitor and seek to reduce the carbon footprint from all aspects of our product supply chain, including how we access raw materials, manufacture industrial wood pellets and manage the logistics chain that connects us to our customers. As an example, we minimize the generation of GHG emissions created in our logistics chain by utilizing efficient shipping logistics, including unit train rail shipping, river barging and ocean shipping utilizing Panamax-class shipping vessels.

Seasonality

Our business is subject to certain seasonal fluctuations. In Canada, the cost of producing industrial wood pellets during the winter months is typically greater than that during the summer months, due in part to two primary factors: (i) the moisture content of raw materials tends to be greater during the winter, which increases the cost of drying; and (ii) lower ambient temperatures increase the cost of maintaining and operating equipment associated with the pellet manufacturing process. In the U.S. Southeast, production tends to be higher in the winter months, as operations can be negatively impacted by the higher temperatures and humidity observed in the summer.

Safety and Environmental Matters

Safety

At the core of our culture is a commitment to safety. Our employees are highly engaged and management has taken an industry lead in promoting the safe handling and production of industrial wood pellets. We are subject to a number of federal and provincial laws and regulations that set out to protect the health and safety of workers. We have a corporate safety program that governs the way we conduct operations at our facilities. Management tracks all safety incidents and near-misses, no matter how minor, and requires that reported incidents receive follow-up and root cause analysis. We monitor and communicate safety performance regularly, and work with our employees to implement improvements. Safety excellence is rewarded by senior management and our employees' compensation is tied to the achievement of specific safety targets each year. In late 2014, we launched a refresh of our existing safety culture entitled "Owning Safety — We believe in safety for ourselves, our team mates, and our families" (the "**Owning Safety Program**"). The Owning Safety Program was designed to strengthen our already strong safety-first culture and is focused on achieving zero incidents and complete employee buy-in through the more effective delivery of training and education programs, rigorous monitoring, effective key performance indicators, quality investigations and the implementation of a recognition and rewards system for safety behaviour. Since initial inception, Pinnacle has continued to build on the Owning Safety Program including by introducing its internal "safety champions" program. This program identifies individuals by their peers who are subsequently selected for additional leadership and safety training, and fast tracked to assume supervisor roles within the Company. As part our commitment to the Owning Safety Program, Pinnacle also incorporates best practices and safety equipment utilized by other industries around the world.

Environmental Matters

Our operations are subject to federal, provincial and local laws and regulations governing environmental protection and the release or discharge of materials in the environment, including air emissions and wastewater discharges. All of our facilities are currently compliant and operating within their environmental permits.

Employees and Labour Relations

As of December 27, 2019, we had a total of 447 employees, of which 26 (or 5.8%) are unionized. The average years of service for hourly mill employees is 3.8 years, which includes employees at our new production facilities. The average years of service for our employees has increased since our introduction of the Owning Safety Program in 2014. Since our inception, we have never experienced a labour disruption.

There is a collective agreement in place between the Houston Facility LP and Steelworkers, Local 1-424 (the "**Union**") that was initially entered into on November 1, 2006 (and subsequently renewed on December 12, 2016). The collective agreement contains provisions that, among other things, prohibit the initiation, promotion or authorization by the Union of any strike, interference or slowdown and the institution by Pinnacle of any

lockout with respect to any dispute. This agreement is effective through October 31, 2021 and from year to year thereafter unless four months’ written notice of contrary intention is served by one of the parties.

Rail Car Leases

We have the following leases in place for the use of 889 railcars:

<u>Railcar Leasing Company</u>	<u># of Cars</u>	<u>Lease Expiry</u>
Wells Fargo Rail Corporation .	229	Varies between February 2025 and September 2028
Interstate Commodities, Inc. ...	226	Varies between April 2020 and October 2028
NuRail Canada ULC.....	128	Varies between September 2021 and March 2026
TrinityRail Canada Inc.....	191	Varies between November 2027 and September 2030
Midwest Railcar Corporation..	50	January 2022
Southwest Rail Industries, Inc.	38	September 2021
American Railcar Leasing LLC	27	September 2021
Total	889	

Growth Strategy & Development Blueprint

With the new long-term supply agreements contracted in Fiscal 2019, we will require additional industrial wood pellet production capacity to meet our growing customer backlog. Through our continuous improvement programs, we expect to continue to increase production capacity at our existing facilities. We also have established a well-defined development blueprint for developing, constructing and operating new production facilities and expanding/converting existing production facilities (the “**Development Blueprint**”), which has led to a track record of successful project development.

Following our Development Blueprint, we construct and commission new production facilities to support new sales contracts. This includes expanding capacity at our Meadowbank and Williams Lake Facilities, installing a new chipping plant and adding an additional pelleter at the recently constructed Smithers Facility, and recommissioning the Entwistle Facility.

Further, the acquisition of a 70% interest in the Aliceville Facility in Aliceville, Alabama in 2018 established a platform for additional future growth in the U.S. Southeast, one of North America’s key wood fibre baskets. Geographic diversification of our asset base provides us with enhanced flexibility to cost-effectively allocate supply to our customers in Europe and Asia. We are continuing to build capacity in the U.S. Southeast with the development of the Demopolis Facility in Demopolis, Alabama.

In 2019, we began development of the High Level and Demopolis Facilities, which are expected to add an additional 560,000 MT of run-rate production capacity on completion. We have been one of the most active developers of industrial wood pellet production capacity and associated infrastructure in recent years which has helped to establish us as one of the leading global suppliers of industrial wood pellets. We believe we have an opportunity to continue growing our industrial wood pellet production proportionately with increasing global demand. We will continue to pursue new development projects, acquisition opportunities and other strategic initiatives in Western Canada, in the U.S. Southeast and other jurisdictions to further diversify our asset base, leverage our development and operational expertise and capture increased market share.

OUR INDUSTRY

Wood pellets are a renewable, sustainable energy source that helps countries and regions meet decarbonisation targets, while still providing baseload dispatchable power. Unlike intermittent renewable energy sources such as solar and wind, biomass energy can be turned on or off to meet demand and can operate as baseload generation as it is not generally affected by weather or resource conditions. As a result, biomass energy is an important component of the energy market that provides renewable baseload power to complement intermittent renewable energy sources. Industrial wood pellets are used to stabilize the electrical grid.

The wood pellet market is comprised of two segments: (1) industrial wood pellets that are generally used as a substitute for coal in power plants; and (2) commercial and residential wood pellets that are used in wood pellet stoves and wood pellet boilers to generate heat (also called the “heat” market). Demand for wood pellets is split roughly equally between industrial and commercial/residential heating markets, though industrial wood pellet demand is forecasted to grow more rapidly.

Industrial wood pellets are used in dedicated biomass power generation plants or co-fired with coal. Since the process for converting industrial wood pellets into electricity and the process for converting coal into electricity is similar, the capital costs for converting a coal plant into a plant that burns biomass are typically lower than the capital costs associated with developing other renewable energy sources. As a consequence, coal plant conversions and co-generation investments are highly attractive investment opportunities for coal plant operators/owners whose generation assets are no longer economical or viable due to the introduction of a regulatory framework intended to reduce GHG emissions. In addition, certain utilities in Europe, Korea and Japan have embarked on projects to build new, greenfield biomass fueled power stations to provide renewable baseload power. Power plants that are equipped to process industrial wood pellets, whether alone or in conjunction with coal, provide a stable source of long-term demand supported by long-term supply contracts between large producers and utilities or trading houses that purchase industrial wood pellets.

RISK FACTORS

An investment in the Common Shares involves risk. Prospective investors should consider carefully the risks and uncertainties set forth below and the other information contained in this Annual Information Form. These are not the only risks and uncertainties that the Company faces. Additional risks and uncertainties not presently known to us, or that we currently consider immaterial, may also materially and adversely affect us. If any of the events identified in these risks and uncertainties were to actually occur, the Company's business, financial condition and results of operations could be materially harmed.

Risks Related to Our Business and Industry

The industrial wood pellet industry may not be able to successfully compete with other forms of energy.

The industrial wood pellet industry competes with well-established, conventional forms of energy, including petroleum, coal and natural gas. These forms of energy are abundant and widely accepted by consumers, and generally have a lower cost of production than industrial wood pellets. If subsidies or policies that incentivize power generators to utilize biomass or disincentivize the use of carbon-based fuels are not sustained, or the price of these competing fuels declines, demand for industrial wood pellets may decrease. The industrial wood pellet industry also competes with other forms of renewable energy, many of which are developing and could attain greater market acceptance than electricity generated from industrial wood pellets. Any failure of the industrial wood pellet industry to successfully compete with other forms of energy could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The international nature of our business subjects us to a number of risks, including foreign exchange and unfavourable political, regulatory and tax conditions in foreign countries.

Substantially all of our current product sales are to customers that operate outside of Canada and the U.S. As a result, we face certain risks inherent to maintaining our international operations that include, but are not limited to, the following:

- foreign exchange movements, which may exert pricing pressure on new contracts compared to competitors whose production costs are based in a currency that weakens relative to the Canadian dollar and/or U.S. dollar, and can also cause some adverse financial performance;
- restrictions on foreign trade and investment, including currency exchange controls imposed by or in other countries; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products, production costs and input costs, and make our products less competitive in some countries.

Our business in foreign countries requires us to respond to rapid changes in market conditions in these countries. Our overall success as a global business depends, in part, on our ability to succeed under differing legal, regulatory, economic, social and political conditions. There can be no assurance, however, that we will be able to develop, implement and maintain policies and strategies that will be effective in each location where our customers operate. Any of the foregoing factors could have a material adverse effect on our results of operations, business and financial position.

The actions of certain non-governmental organizations could result in increased or adverse regulation of our business.

Certain non-governmental organizations with an interest in environmental issues have expressed their opposition to the use of biomass for power generation, both publicly and directly, to domestic and foreign regulators, policy makers, power generators and other industrial users of biomass. These organizations are also actively lobbying domestically and abroad to significantly increase the regulation of, and reduce or eliminate the incentives and support for, the production and use of biomass for power generation. These organizations may also seek to increase regulation through litigation. It is possible that the continued efforts of these organizations, whether through lobbying, litigation or other means, will result in the adoption of regulations that could adversely affect our current operations or those of our customers. The occurrence of any of these events could have a material adverse effect on our results of operations, business and financial position.

Our business is highly dependent on the security of our wood fibre supply.

Our ability to produce industrial wood pellets is dependent on the security of our wood fibre supply. During the year ended December 27, 2019, our top three wood fibre suppliers provided approximately 37% of our wood fibre supply. We procure wood fibre from a variety of sawmills operated by each of these three suppliers. If one or more of our suppliers is unable to continue supplying wood fibre at past levels, our operations will be adversely affected if we are unable to find alternative low-cost sources of wood fibre on a timely basis.

Our ability to procure wood fibre for use in our operations could be adversely impacted by natural disasters or other events that may cause us to receive less wood fibre directly from the sawmills and force us to rely more heavily on timber salvaging operations. Factors that could impact the supply of wood fibre in the regions in which we operate include natural disasters such as forest fires, severe weather conditions and insect infestations (including infestations of mountain pine beetles). For example, the B.C. forest fires in the summer of 2017 and 2018 were a significant risk to our supply but did not have a material impact on our operations. If the forest fires were to expand, this could have an adverse impact on our operations and on our ability to procure wood fibre in the long-term. Additionally, the long-term effect of the mountain pine beetle infestation on the supply of wood fibre in Western Canada is uncertain. Many sawmills in B.C. have experienced a diminished grade and volume of lumber recovered from beetle-killed logs and increased production costs associated with those logs.

The short- and long-term supply of wood fibre in the region may also be affected by events such as production or delivery disruptions, labour disputes, the impaired financial condition of a particular supplier, general economic and political conditions, trade disputes or the decreased availability of wood fibre in a particular region as a consequence of provincial government determinations of the amount of allowable annual cut. Changes in lumber prices and other economic conditions may impact the financial position of a particular supplier, and cause changes to the volume of lumber produced by our suppliers, which may impact the volume of sawmill residuals available for our operations. Furthermore, other companies, whether or not in our industry, could procure wood fibre within our procurement areas and adversely change regional market dynamics, resulting in insufficient quantities of raw material or higher prices.

In B.C. and Alberta, substantially all of our wood fibre is sourced from suppliers that harvest timber lands owned by a provincial government. Provincial governments control the volumes that can be harvested under provincially-granted tenures and otherwise regulate the allowable annual cut. Determinations by provincial governments to reduce the volume of timber or the areas that may be harvested under timber tenures, including to protect the environment or endangered species and critical habitat, may reduce our ability to procure wood fibre from one or more suppliers. Any reduction in the supply of wood fibre in the region could result in a decrease in our production levels or impair our ability to internally meet our commitments to customers under existing off-take contracts.

In Alabama, wood fibre is sourced from forests harvested using sustainable practices, and the majority of our wood fibre is ultimately sourced from third-party landowners. Our reliance on third parties to secure wood fibre exposes us to potential price volatility and limited raw materials, which may increase costs and adversely affect our business.

In addition, shortages of wood fibre in the regions in which we operate may result in an increase in the cost of wood fibre. Wood fibre costs have increased over the last three years, and could continue to increase in the future. Any interruption or delay in the supply of wood fibre, or our inability to obtain wood fibre at acceptable

prices in a timely manner could impair our ability to meet the demands of our customers and impact our operations. This could have a material adverse effect on the results of our operations, business and financial condition.

Changes in legislation, regulations, government policies, incentives and taxes implemented to support increased generation of low-carbon and renewable energy may affect customer demand for our products.

Demand for industrial wood pellets in the regions in which we sell our products is directly impacted by legislation, regulations, government policies, incentives and taxes adopted by regional, national and local governments in order to require or encourage utilities to utilize low-carbon sources of energy. Many of our customers currently use industrial wood pellets because they receive direct or indirect financial support or incentives to do so. Financial support is often necessary to cover the generally higher costs of renewable industrial wood pellets compared to conventional fossil fuels like coal. In most countries, once the government implements a specific renewable energy policy or incentive either supporting a specific renewable energy generator or the energy generating sector as a whole, such policy or incentive is generally guaranteed for a specified period of time (such as the investment lifetime of a particular project). However, the government may modify its tax, tariff or incentive regimes, and the future availability of any policies or incentives that increase demand for industrial wood pellets, either in current jurisdictions beyond the prescribed timeframes or in new jurisdictions, is uncertain. Demand for industrial wood pellets could be substantially lower than expected if government support for biomass projects is reduced or delayed or, in the future, is insufficient to enable successful deployment of biomass power to the levels currently projected. Any changes in the regulatory frameworks governing our customers that decrease demand for industrial wood pellets could have a material adverse effect on our results of operations, business and financial position.

For our products to be acceptable to our customers, they must comply with stringent sustainability requirements.

In order to be eligible for financial incentives and subsidies that encourage the use of renewable energy, our customers must comply with sustainability requirements that require the use of biomass fuel that is demonstrably sustainable. Within Europe, and the U.K. in particular, these requirements are implemented through biomass sustainability criteria, which have a mandatory element of eligibility for financial subsidies to biomass energy generators. These sustainability requirements impose restrictions on the types of biomass that we can use or require us to source our raw materials only from geographic regions that comply with specific forest management practices. These requirements may also require us to reduce the greenhouse gas emissions associated with our supply and production processes. If we are unable to comply with applicable sustainability requirements, or if the cost of complying with such requirements increases the cost of our industrial wood pellets, demand for our products could be materially reduced in certain markets, and our results of operations, business and financial position may be materially adversely affected as a result.

Our business is subject to operational risks.

Although we have implemented safety precautions and procedures to reduce the risk of fire and explosions and to mitigate the impact when they occur, the amount of ignition sources inherent in the industrial wood pellet production process presents a high risk of explosion and fire. In particular, our operations generate wood dust which has been recognized for many years as a potential health and safety hazard. Although we have adopted a variety of measures to reduce or eliminate the risks posed by the presence of wood dust in our production facilities and continue to work with industry and regulators to develop and adopt best mitigation practices, there can be no assurance that a fire or explosion will not occur at one or more of our production facilities. A fire, explosion or similar event at any of our facilities could result in significant loss, increases in expenses and disruption of operations, each of which would have a material adverse effect on our results of operations, business and financial position. One or more of our facilities may also experience prolonged shutdowns as a consequence of other operational hazards, such as equipment breakdown, longer-than-expected maintenance or interrupted power supply.

Severe weather or natural and man-made disasters, such as floods, earthquakes, hurricanes, forest fires or drought, may impact our operations by causing weather-related damage to our facilities and equipment. As production at our production facilities is dependent upon critical pieces of equipment, severe damage to critical equipment may result in production facility shutdowns or periods of reduced production. Severe weather or other climatic phenomena may also interfere with our transportation network or otherwise impair our ability to deliver

industrial wood pellets to our customers. Additionally, severe weather or other climatic changes could impact the supply of wood fibre in the regions in which we operate or otherwise interfere with the ability of our suppliers to provide us with adequate amounts of wood fibre, which could have a material adverse effect on our results of operations, business and financial position.

Our operations are subject to stringent environmental and occupational health and safety laws and regulations that may expose us to significant costs and liabilities.

Our operations are subject to stringent federal, regional, provincial, state and local environmental, health and safety laws and regulations. These laws and regulations govern environmental protection, occupational health and safety, the release or discharge of materials into the environment, air emissions, wastewater discharges, the investigation and remediation of contaminated sites and allocation of liability for cleanup of such sites. These laws and regulations may restrict or impact our business in many ways, including by requiring us to acquire permits or other approvals to conduct regulated activities, limiting our air emissions or wastewater discharges or requiring us to install costly equipment to control, reduce or treat such emissions or discharges, imposing requirements on the handling or disposal of wastes, impacting our ability to modify or expand our operations (for example, by limiting or prohibiting construction and operating activities in environmentally sensitive areas) and imposing health and safety requirements for worker protection. We may be required to make significant capital and operating expenditures to comply with these laws and regulations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of investigatory or remedial obligations, suspension or revocation of permits and the issuance of orders limiting or prohibiting some or all of our operations. Adoption of new or modified environmental laws and regulations may impair the operation of our business, delay or prevent expansion of existing facilities or construction of new facilities and otherwise result in increased costs and liabilities, which may be material.

Certain environmental laws may impose strict as well as joint and several liability without regard to comparative fault. Under these laws, we may be required to remediate contaminated properties currently or formerly operated by us, or facilities of third parties that received waste generated by our operations. Such remediation obligations may be imposed regardless of whether such contamination resulted in whole or in part from the conduct of others and whether such contamination resulted from actions (by us or third parties) that complied with all applicable laws in effect at the time of those actions. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations, including accidental spills or releases in the course of our operations or those of a third party. Although we are not presently aware of any material contamination on our properties or any material remediation liabilities, we cannot ensure that we will not be exposed to significant remediation obligations or liabilities in the future.

As we continue to execute our Development Blueprint, we may expand our operations into new jurisdictions and be required to comply with additional environmental and occupational health and safety laws and regulations. If we are unable to comply with these requirements, we may be exposed to significant costs and liabilities.

Failure to maintain effective quality control systems at our production facilities and deep-water terminal could have a material adverse effect on our business and operations.

The cost and quality of our industrial wood pellets, and our ability to deliver them to our customers in a timely and cost-effective manner, are critical to the success of our business. Both the cost and quality of our industrial wood pellets and our ability to deliver them to our customers in a timely and cost-effective manner depend significantly on the effectiveness of our quality control systems, which depends on a number of factors including the design of our quality control systems, our quality training program and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could compromise the quality of our industrial wood pellets or our ability to deliver them to our customers and have a material adverse effect on our results of operation, business and financial condition.

Most of our current revenue is generated under contracts with three customers and with customers in Europe. The loss of any of them could adversely affect our business, financial condition, results of operations, cash flows and ability to pay dividends. We may not be able to renew or obtain new and favourable contracts with these customers when our existing contracts expire, and we may not be able to obtain contracts with new customers which could adversely affect our revenues and profitability.

Our top three customers were responsible for approximately 83% of our revenue in the year ended December 27, 2019. Because we currently derive such a significant portion of our revenue from a small number of customers, we are subject to counterparty risk concentration. Each of these customers acquires industrial wood pellets from us pursuant to off-take contracts that have a term of between 1.5 and 7.5 years remaining. Upon the expiration of their respective off-take contracts, one or more of these customers may decide not to renew their contracts on favourable terms or at all. Unless we are able to diversify our customer base by negotiating off-take contracts with new customers in the future, our results of operations, business and financial position could be materially adversely impacted if any one of these customers attempts to terminate or renegotiate its off-take contract, fails to perform its obligations under its off-take contract or chooses not to renew its off-take contract on favourable terms.

Approximately 84% of our revenues for the year ended December 27, 2019 were derived from customers in Europe. While we have continued to diversify our customer base by signing contracts with customers in Asia, if we are unable to further diversify our customer base outside of Europe, our business will continue to be highly dependent on demand for industrial wood pellets from Europe. There are a number of factors that could impact demand for industrial wood pellets from Europe, including weakness in the European economy, political instability or changes to the regulatory framework that currently encourage utilities to utilize industrial wood pellets. If we are unable to successfully penetrate markets outside of Europe in the future, our results of operations, business and financial position could be materially adversely affected if European demand for industrial wood pellets declines or does not grow as quickly as anticipated.

Any decline in our customers' competitiveness or creditworthiness may have a material adverse effect on our operations.

Our business is dependent on our customers' on-going demand for industrial wood pellets. Among other things, our customers' on-going demand for industrial wood pellets is dependent on their ability to compete in their respective electricity and heat markets. A number of factors could impact our customers' competitiveness, including demand for electricity in the relevant market, the price of electricity in the relevant market, the cost of producing electricity using industrial wood pellets relative to the cost of producing using other sources of energy and other factors beyond our control. If any customers or potential customers are less competitive in their local electricity markets or their financial condition otherwise deteriorates, demand for our products may decline and they may be less likely to renew or enter into off-take contracts on favourable terms or at all. In certain circumstances, customers may seek to terminate existing contracts or renegotiate existing contracts on less favourable terms.

Although we have customary credit procedures and policies in place in order to limit our exposure to customer credit risk, there may be circumstances in which customers are unable to pay for industrial wood pellets they have agreed to purchase under off-take contracts or otherwise become unable to fulfill their contractual obligations. The ability of a customer to perform its contractual obligations will depend on a number of factors that are beyond our control and may include, among other things, the overall financial condition of the counterparty, the condition of the regional power generation industry, continuing regulatory and economic support for industrial wood pellet generated power and general economic conditions. Many of our off-take contracts are entered into with subsidiary entities of larger power generators rather than with the ultimate parent companies. Although these subsidiary entities are considered to have strong creditworthiness on their own, their financial position may not be as strong as that of their ultimate parent companies and any default in payment or other obligations by these counterparties under our off-take contracts are not guaranteed by their ultimate parent companies. If we fail to adequately assess the creditworthiness of existing or future customers, or if their creditworthiness deteriorates unexpectedly, any resulting un-remedied non-payment or non-performance by them could have a material adverse effect on our results of operations, business and financial position.

The satisfactory delivery of substantially all of our production is dependent upon continuous access to infrastructure at our owned, leased and third-party-operated ports. Loss of access to our ports of shipment and destination, including through failure of port equipment and port closures, could adversely affect our financial results and cash available for distribution.

A significant portion of our total production is loaded for shipment utilizing automated conveyor and ship loading equipment at the Port of Mobile, the Port of Prince Rupert and the Port of Vancouver, and substantially all of our production is dependent upon infrastructure at our owned and third-party operated ports. Should we suffer a catastrophic failure of the equipment at these ports or otherwise experience port closures, including for security or weather-related reasons, we could be unable to fulfill off-take obligations or incur substantial additional transportation costs, which would reduce our cash flow. Moreover, we rely on various ports of destination, as well as third parties who provide stevedoring or other services at our ports of shipment and destination or from whom we charter oceangoing vessels and crews, to transport our product to our customers. Loss of access to these ports for any reason, or failure of such third-party service providers to uphold their contractual obligations, may impact our ability to fulfill off-take obligations, cause interruptions to our shipping schedule, and/or cause us to incur substantial additional transportation or other costs, all of which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to successfully execute our growth strategy.

Our strategy for expanding production capacity includes the construction of new production facilities, the potential expansion of existing production facilities and new acquisitions. Although we believe that our Development Blueprint provides a well-defined strategy for developing, constructing and operating new production facilities, or expanding existing production facilities, there can be no guarantee that we will be able to successfully execute on our growth strategy. Various factors could prevent us from successfully executing our growth strategy, including the following:

Construction and Development Risk: Our growth strategy includes the construction of new production facilities, and the expansion or conversion of existing production facilities. Our ability to proceed with significant projects may be limited by a number of factors, including our ability to obtain any required licenses, permits and authorizations and our ability to find financing on satisfactory terms. In addition, the construction and development of major projects entails significant risks, including: unanticipated cost increases; unforeseen engineering or environmental problems; work stoppages; weather interference; unavailability or failure of necessary equipment; staffing problems; and difficulties obtaining any of the requisite licenses, permits and authorizations from regulatory authorities. Expansion projects also increase operational risk due to the operation of new equipment and the integration of new equipment into production facility operations. If we are able to complete the construction or expansion of any production facilities, the performance of these production facilities will be subject to a number of risks, including: mistaken assumptions about revenues and costs of such production facilities; difficulties in successfully integrating such production facilities into our broader business or achieving expected synergies; difficulties in hiring and retaining qualified personnel; and mistaken assumptions about the sustainability of increased demand for our industrial wood pellets. As a result of these factors, we cannot ensure that our current or future projects will commence operations on schedule or at all, that the costs for the projects will not exceed budgeted amounts or that production levels will meet our expectations. Failure to complete a project on budget, on schedule or at all or to achieve expected production levels may adversely impact our results of operations, business and financial position.

Acquisition Risk: Our ability to acquire new production facilities on favourable terms, or at all, may be limited by a number of factors, including the number and location of attractive targets, competition from other potential buyers, internal demands on our resources (whether financial or otherwise) and our ability to find financing on satisfactory terms for larger acquisitions. We may also incur costs for, and divert management attention to, potential acquisitions that are never consummated. Any acquisitions that we successfully complete may expose us to additional risks, some of which are beyond our control, including: the incurrence of additional debt, mistaken assumptions about revenues and costs of acquired operations; difficulties in successfully integrating acquired operations into our broader business or achieving expected synergies; difficulties in retaining key employees of acquired operations; the assumption of unknown liabilities; limitations on our ability to seek indemnification from the seller; disruptions to our ongoing business; and the diversion of management's attention

to other business concerns. Our failure to address any of these issues could impact the benefit of any acquisition and have a material adverse effect on our results of operations, business and financial position.

Contracted Backlog Risk: We have entered into long-term take-or-pay contracts with our customers that represent 105% of our production capacity through 2026, on an aggregated basis, including new production capacity from the Aliceville Facility, the Entwistle Facility, the Smithers Facility and the Demopolis Facility. While we expect to meet these commitments by continuing to increase our productive capacity through a combination of developing new greenfield or brownfield production facilities, expanding our existing facilities and completing acquisitions, any interruptions or delays in our ability to increase our productive capacity on acceptable economic terms could impair our ability to meet our contracted commitments to our customers, which could have a material adverse effect on our results of operations, business and financial position.

As growth in global demand for industrial wood pellets increases, the industry in which we operate may become more competitive.

We compete with other industrial wood pellet producers for long-term, take-or-pay off-take contracts with major electrical power generating customers. Competition in our industry revolves around the price, quality and consistency of industrial wood pellets, the reliability of industrial wood pellet deliveries and the producer's ability to verify and document, through customer and third-party audits, that its industrial wood pellets meet the regulatory sustainability obligations of a particular customer.

Most of the world's current production facilities are owned by small, private companies, with few companies owning or operating multiple production facilities. At present, only a few companies (including Pinnacle) have the scale, technical expertise or commercial infrastructure necessary to supply industrial wood pellets under large, long-term off-take contracts with power generators. Such companies include Enviva Partners, LP and Graanul. Some of our competitors may have greater financial and other resources than we do, may develop technology that is superior to ours or have production facilities located in regions that have better access to low-cost wood fibre or are advantageous from a transport cost perspective.

As demand for industrial wood pellets increases, our operational capacity may not be sufficient to meet the increased demand of existing or potential customers. In addition, increased competition in the industry could result in increased pricing pressure. If the market price of industrial wood pellets decreases, we may experience reductions in our profit margins or be unable to pass future input price increases on to our customers, which would reduce our cash flow.

We may be required to make substantial capital expenditures to maintain our facilities.

Although we currently use a portion of our cash reserves and cash generated from our operations to maintain, develop and improve our assets and facilities, such investment may, over time, be insufficient to maintain our facilities in good operating condition or to upgrade our facilities in order to comply with environmental permits and regulations or maintain historic levels of production as operating conditions change. If substantial capital expenditures are required in order to maintain our facilities in good operating condition, our results of operations, business and financial position may be materially adversely affected. If we do not have sufficient cash reserves on hand, our ability to incur such expenditures may be limited by our ability to find financing on satisfactory terms. There can be no guarantee that we will be able to obtain such financing on favourable terms or at all.

Our business may suffer if we lose members of our senior management team or are unable to attract and retain other key personnel.

We depend to a large extent on the services of our senior management team and other key personnel, and we are seeking to hire certain management personnel in the near term. Members of our senior management and other key employees collectively have extensive expertise in designing, building and operating production facilities, as well as in negotiating long-term off-take contracts. Competition for management and key personnel is intense, and the pool of qualified candidates is limited. The loss of any of these individuals or the failure to attract additional personnel, as needed, could have a material adverse effect on our operations and could lead to higher labour costs or the use of less qualified personnel. In addition, if any of our executives or other key employees were to join a competitor or form a competing company, we could lose customers, suppliers, knowhow

and key personnel. Our success will be dependent on our ability to continue to attract, employ and retain a strong senior management team.

Our business could be adversely affected by labour shortages, increased labour costs and labour disruptions.

Our success depends on our ability to attract employees with needed skills in the regions in which we operate. Our ability to meet labour needs while controlling associated costs is subject to a number of external factors, including employment levels, employee-turnover rates, labour resources in remote communities, changing demographics, prevailing wage rates, minimum wage legislation, health and other insurance costs, the unionization of non-unionized workers, governmental labour and employment requirements or increased competition for employees. If we are not able to attract skilled employees or face increased labour costs as a result of any of such factors it may impact our operational capacity or production costs and have a material adverse effect on our results of operation, business and financial position.

Employees at our Houston Facility (representing approximately 6% of our overall workforce) are subject to a collective agreement that expires in October, 2021. Our operations may be adversely affected by labour disruptions or labour unrest, including as a result of any delay or failure to renegotiate the collective agreement before it expires. Any labour disruption, labour unrest or other collective bargaining activities may have a material adverse effect on our results of operations, business and financial position.

Our level of indebtedness may reduce our financial flexibility or expose us to increased financial risk.

As at December 27, 2019, we had indebtedness of \$329 million under our Credit Facilities (as defined below) and we may incur additional indebtedness in the future, including financing acquisitions, constructing new facilities or expanding existing facilities. Our level of indebtedness could impair our flexibility or otherwise affect our operations in several ways, including the following:

- our debt service obligations could divert funds identified for other purposes and, as a consequence, adversely affect our business;
- the covenants contained in the agreements governing our outstanding indebtedness may limit our ability to borrow additional funds, dispose of assets, pay dividends and make certain investments;
- the covenants contained in the agreements governing our outstanding business may limit our flexibility to plan for, and react to, changes in the economy and in our industry;
- a high level of debt would increase our vulnerability to general adverse economic and industry conditions;
- a high level of debt may place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing; and
- a high level of debt may impair our ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions or other purposes.

We are exposed to changes in interest rates on our cash and cash equivalents, bank indebtedness and long-term debt. Indebtedness under the Credit Facilities and other credit facilities we enter into in the future may bear interest at variable rates. If market interest rates increase, our interest expense in respect of such indebtedness will increase which could adversely affect our cash flow.

In addition to our debt service obligations, our operations require substantial expenditures on a continuing basis. Our ability to make scheduled debt payments, to refinance our obligations with respect to our indebtedness and to fund capital and non-capital expenditures necessary to maintain the condition of our operating assets and properties, as well as to provide capacity for the growth of our business, depends on our financial and operating performance. General economic conditions and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. We may not be able to generate sufficient cash flows to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. Any inability to repay or refinance our indebtedness could have a material adverse effect on our results of operations, business and financial position.

An increase in the price or a significant interruption in the supply of electricity or natural gas could have a material adverse effect on our results of operations.

Our facilities use a substantial amount of electricity and natural gas. The price and supply of electricity and natural gas are unpredictable and can fluctuate significantly. In addition, potential climate change regulations or carbon or emissions taxes could result in higher production costs for electricity or natural gas, which may be passed on to us in whole or in part. A significant increase in the price of electricity or natural gas or an extended interruption in the supply of electricity or natural gas to our facilities could have a material adverse effect on our results of operations, business and financial position.

Disruptions to our transportation system and fluctuations in transport costs could impact our business.

Because our production facilities are diversified and spread over a wide geographic footprint across B.C., Alberta and Alabama, and the majority of our customers are located in Europe and Asia, our business is highly dependent on our ability to transport industrial wood pellets on a cost-efficient basis over significant distances. Although we have taken steps to reduce transportation risk, such as transporting our product on a fleet of 889 leased rail cars, building our own marine terminal at the Westview Terminal and entering into fixed-price contracts with reputable shippers, factors beyond our control could temporarily impair our ability to deliver products to our customers in accordance with our contractual obligations. The ability of our shipping partners to transport our industrial wood pellets may be disrupted by shortages of or damage to trucks, rail cars or vessels, weather-related problems, mechanical difficulties, the financial condition of our shipping partners, work stoppages, restricted access to traditional global shipping routes, blockades bottlenecks, transportation disruptions related to natural disasters or pandemics and other events beyond our control. The majority of our industrial wood pellets are loaded for transport at our terminal at the Westview Terminal, utilizing automated conveyor and ship loading equipment. Any damage to this equipment could result in significant losses or disrupt our ability to transport overseas customers. In addition, persistent disruptions in marine transportation may force us to halt or suspend production as we reach storage capacity at our deep-water marine terminals.

Any significant or prolonged disruption of our transportation network as a result of such factors could impair our ability to fulfill our obligations under one or more off-take contracts, which could damage our reputation for reliable delivery and potentially result in the termination or non-renewal of such contracts. Accordingly, if the transportation services we use to transport our products are disrupted, and we are unable to find alternative transportation providers, it could have a material adverse effect on our results of operations, business and financial position.

Our business could also be adversely affected by increases in transportation costs, including as a result of fluctuations in the cost of bunker fuel or other national or global market conditions that impact shipping costs. Although we attempt to mitigate this risk by entering into fixed-price shipping contracts that match the term and volume of our off-take contracts, we cannot guarantee that our transportation costs will not increase in the future. If market conditions prevent us from passing increased transportation costs on to our customers, such cost increases may have an adverse effect on our profitability.

Aboriginal Land Claims.

Canadian courts have recognized that aboriginal peoples may possess rights in law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with these rights. These rights may vary from limited rights of use for traditional purposes to a right of aboriginal title and will depend upon, among other things, the nature and extent of the prior use and occupation. Aboriginal groups in B.C. have claimed substantial portions of land in the province over which they claim aboriginal title or in which they have a traditional interest and for which they are seeking compensation from various levels of government. A process is now in place in B.C. to deal with aboriginal land claims. These negotiations will be ongoing for a number of years, depending on the engagement of the parties involved and the precedents set by the outcomes of the initial settlement agreements.

We cannot predict whether any aboriginal groups will claim rights in one or more of our properties and, if so, how those claims will be resolved. Similarly, we cannot predict whether claims will be made against one or more of our major suppliers of wood fibre and, if successful, whether any such claim could have an adverse effect on our ability to secure wood fibre at attractive prices. If any aboriginal group makes a successful claim against

our property or the property of one of our major suppliers, it may have a material adverse effect on our results of operation, business and financial condition.

Certain of our production facilities are owned in partnership with third parties.

Our Houston Facility, Lavington Facility, Smithers Facility, Aliceville Facility, High Level Facility and Demopolis Facility are co-owned with third parties. While we have a controlling interest in the Lavington Facility, Smithers Facility, Aliceville Facility, High Level Facility and Demopolis Facility, we only have a 30% interest in the Houston Facility, with the balance being owned by Canfor (60%) and the Moricetown Band (10%). Our Houston Facility, Lavington Facility, Smithers Facility, Aliceville Facility, High Level Facility and Demopolis Facility are governed by partnership agreements that contain restrictions on a change of control and prohibitions on the sale, pledge or disposition, by the respective partners, of their interests. Pursuant to a series of additional agreements with our partners pertaining to the Houston Facility LP, the Lavington Facility LP, the Smithers Facility LP and Alabama Pellets, we are responsible for, amongst other things, various operational and marketing services. There can be no assurance that these agreements will be renewed upon expiry or be renewed on similar terms. The lack of exclusive or majority control over these production facilities may limit our ability to make key strategic decisions in respect of these production facilities or to ensure that they are operated in accordance with our quality control policies and procedures. Co-owning certain production facilities with partners may also result in risks related to the fact that: (i) one or more of our partners may have financial constraints that limit its ability to contribute capital to the production facility on a proportionate basis or otherwise have a negative impact on such production facility; (ii) one or more of our partners may have economic or business interests or goals which are inconsistent with our own interest and goals; and (iii) we may, in certain circumstances, be directly or indirectly liable for actions taken by our third-party partners without our consent or approval.

We are subject to litigation risks that could adversely affect our business, financial condition and results of operations.

As a growing company with expanding operations, we increasingly face the risk of litigation and other claims against us. Litigation and other claims may arise in the ordinary course of our business and include, amongst other things, actions relating to employee and customer claims, commercial disputes, property damage, property taxes and the environment. These claims can raise complex factual and legal issues that are subject to risks and uncertainties and could require significant management time. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Company and, as a result, could have an impact on our reputation and ultimately, an adverse effect on our business and results of operations. Even if the Company prevails in any such legal proceeding, the proceedings could be costly which could have an adverse effect on our business, financial condition and results of operations.

Although we maintain liability insurance to mitigate potential claims, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

We are subject to insurance-related risks.

We maintain director and officer insurance, liability insurance, business interruption, course of construction and property insurance and our insurance coverage includes deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be paid to us on a timely basis. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war or certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Our business and operating results are subject to seasonal fluctuations.

Our business is affected to some extent by seasonal fluctuations. In Canada, the cost of producing industrial wood pellets tends to be higher in the winter months because the delivered cost of wood fibre typically increases with wet weather and our raw materials have, on average, higher moisture content during such period

of the year, resulting in lower production volumes. In addition, lower ambient temperatures increase the cost of drying wood fibre during the winter months. In the U.S. Southeast, production tends to be higher in the winter months, as operations can be negatively impacted by the higher temperatures and humidity observed in the summer. As a result of these seasonal fluctuations, comparisons of operating measures between consecutive periods may not be as meaningful as comparisons between annual results.

Dependence on management information systems and exposure to cyber security risks.

The Company depends on its management information systems in each stage of its operations. In addition, the management information systems form the basis of the Company's financial reporting. If irreparable damage were caused to the information systems and databases or the information contained in the management information systems were lost or stolen, the business, financial condition, liquidity and results of operations could be adversely affected.

Although to date Pinnacle has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. Pinnacle's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Changes in accounting standards could significantly affect our reported financial results or financial condition.

The accounting standards applicable to our business, including but not limited to accounting standards in respect of revenue recognition, impairment of goodwill and intangible assets, inventory, income taxes and litigation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these standards or their interpretation, or changes in the underlying assumptions, estimates or judgments, could significantly change our reported financial performance or financial condition in accordance with generally accepted accounting principles.

Changes in Canadian or U.S. tax laws and regulations may adversely affect our business, financial condition and operating results.

Changes in tax laws, regulations and treaties in any of the multiple jurisdictions in which we operate, or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate, could result in an unfavorable change in our effective tax rate, which could adversely affect our business, financial condition and operating results. Significant judgment is required in evaluating and estimating our provision and accruals for taxes, and actual results may differ from our estimations. Major developments in tax policy could have a material adverse effect on our growth opportunities, business and results of operations.

While we believe that we have appropriately remitted all taxes based on our interpretation of applicable law, it is possible that some taxing jurisdictions may attempt to assess additional taxes and penalties on us if the applicable authorities do not agree with our positions. A successful challenge by a tax authority, through asserting either an error in our calculation, or a change in the application of law or an interpretation of the law that differs from our own, could adversely affect the results of operations.

In addition, we have significant loss carryforwards which could be adversely impacted by a change in tax law.

Disease outbreaks may negatively impact our operations

A local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illness could result in a general or acute decline in economic activity, volatility and disruption to global supply chains, staff shortages, mobility restrictions and other quarantine measures, supply shortages or increased government regulation. All of these occurrences may have a material adverse effect on our results of operation, business and financial condition.

Our operations may be impacted by stakeholder activism.

Our operations and growth prospects require strong relationships with key stakeholders, including governments, agencies, First Nations and local communities, landowners and environmental organizations. Furthermore, Pinnacle relies on our joint venture partners, fibre suppliers and transportation partners to maintain similar strong relationships with these stakeholders to conduct our business. External stakeholders are increasingly challenging issues related to corporate social responsibility, including climate change, sustainability, diversity, land rights, executive compensation and other matters. Public opposition to companies and infrastructure projects that are deemed to be inconsistent with corporate social responsibility values are becoming increasingly common. Inadequate management of expectations and issues important to stakeholders by Pinnacle or our partners could result in activism which could have a material adverse effect on our results of operations, business and financial position.

Our operations may be impacted by climate change

Our operations are subject to adverse events brought on by both natural and human-made disasters. These events include, but are not limited to, severe weather conditions, forest fires, hurricanes, earthquakes and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect our access to adequate fibre supply or result in reduced transportation availability. These events could have a similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the results of our operations, business and financial position.

Risks Related to the Ownership of Our Common Shares

The market price for Common Shares may be volatile and your investment could suffer a decline in value.

The market price of our Common Shares could be subject to significant fluctuations, and it may decline. Some of the factors that may cause the market price of our Common Shares to fluctuate include:

- volatility in the market price and trading volume of comparable companies;
- actual or anticipated changes or fluctuations in our operating results or in the expectations of market analysts;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- short sales, hedging and other derivative transactions in our Common Shares;
- litigation or regulatory action against us;
- investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with Canadian securities regulators, including our financial statements;
- publication of research reports or news stories about us, our competitors or our industry;
- positive or negative recommendations or withdrawal of research coverage by securities analysts;
- changes in general political, economic, industry and market conditions and trends;
- sales of our Common Shares by existing Shareholders;
- recruitment or departure of key personnel;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and
- the other risk factors described in this section of this Annual Information Form.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria. Failure to satisfy such criteria may result in limited or no investment in the Common Shares by those institutions, which could materially

adversely affect the trading price of the Common Shares. There can be no assurance that fluctuations in trading prices and volumes will not occur. If increased levels of volatility and market turmoil continue for a protracted period of time, the trading price of the Common Shares may be materially adversely affected.

In addition, broad market and industry factors may harm the market price of our Common Shares. Hence, the price of Common Shares could fluctuate based upon factors that have little or nothing to do with our results of operations or financial condition, and these fluctuations could materially reduce the price of our Common Shares regardless of our operating performance. In the past, following a significant decline in the market price of a company's securities, there have been instances in which securities class action litigation has been instituted against that company. If we were involved in any similar litigation, we could incur substantial costs, our management's attention and resources could be diverted and it could harm our results of operations, business and financial position.

Future sales of our securities could cause the market price for our Common Shares to fall, even if our business is doing well.

Sales of a substantial number of our Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could significantly reduce the market price of our Common Shares and the market price could decline. We cannot predict the effect, if any, that future sales of these securities or the availability of these securities for sale will have on the market price of our Common Shares. Any drop in the market price of the Common Shares as the result of such sales, or the perception that such sales might occur, could impede our ability to raise additional capital for planned projects and have a material adverse effect on our results of operations, business and financial position.

Any failure to establish and maintain adequate internal controls over financial reporting or otherwise prevent or detect errors or misstatements may result in a decline in the price of our Common Shares.

As a public company, we are required to establish and maintain adequate internal controls over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance regarding the reliability of financial reporting. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all errors or misstatements in an organization's financial statements are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

We may not be able to maintain or increase our quarterly dividend in the future.

Our dividend policy is at the discretion of the Board and may vary depending upon, among other things, our available cash flow, results of operations, financial condition, business growth opportunities and other factors that the Board may consider relevant. Although we intend to continue to pay a quarterly dividend payment of \$0.15 per Common Share, the payment of dividends is not guaranteed and the amount and timing of any dividends will be at the discretion of the Board. While we expect to continue to generate sufficient cash flow to fund such dividend payments, there can be no assurance that we will continue our dividend payments at the current expected levels if actual results are different from expectations or the Board otherwise determines that the payment of a dividend is not appropriate at the time. See "Dividend Policy".

Future offerings of preferred shares may adversely affect the price of our Common Shares.

Our authorized share capital includes an unlimited number of preferred shares, issuable in series. In the future, the Board may determine that it is in our best interests to increase our capital resources by issuing preferred shares and to determine the preferences, limitations and relative rights of such shares without any further vote or action by our Shareholders. Our preferred shares could be issued with liquidation, dividend and other rights

superior to the rights of our Common Shares, including rights that limit our ability to pay dividends to holders of our Common Shares. Our decision to issue preferred shares in the future will depend on market conditions, our results of operations and other factors beyond our control. As a result, we can offer no assurances that we will not issue preferred shares in the future and, if so, that the issuance of such shares will not result in a decline in the market price of our Common Shares.

If securities or industry analysts do not publish research or publish inaccurate or unfavourable research about us or our business, our trading price and volume of our Common Shares could decline.

The trading market for our Common Shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence covering us, the trading price and volume of our Common Shares would likely be negatively impacted. If we obtain securities or industry analyst coverage and one or more of the analysts who cover us downgrade our Common Shares or publishes inaccurate or unfavourable research about our business, our trading price may decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Common Shares could decrease, which could cause our trading price and volume to decline.

DIVIDEND POLICY

On March 2, 2020, we declared a quarterly dividend of \$0.15 per Common Share, payable on March 26, 2020. In 2019, we paid aggregate dividends of \$0.60 per Common Share (quarterly payments of \$0.15 per Common Share in March 2019, May 2019, August 2019 and November 2019). In 2018, we paid aggregate dividends of \$0.39 per Common Share (an initial quarterly dividend following completion of the IPO of \$0.09 per Common share in May 2019, followed by quarterly payments of \$0.15 per Common Share in August 2018 and November 2018).

Although we expect to continue paying a cash dividend, future dividends will be at the discretion of the Board and will be subject to factors such as our cash flow, results of operations and financial condition of Pinnacle, the need for funds to finance ongoing operations, compliance with credit agreements and other instruments, and such other considerations as the Board considers relevant. See “Risk Factors”.

DESCRIPTION OF CAPITAL STRUCTURE

The following is a summary of the material attributes and characteristics of the Company’s authorized share capital. This summary is qualified by reference to, and is subject to, the detailed provisions of our articles (“Articles”).

Our authorized share capital consists of (i) an unlimited number of Common Shares and (ii) an unlimited number of preferred shares, issuable in series. As at March 9, 2020, there are 33,359,570 Common Shares issued and outstanding and no preferred shares issued and outstanding.

Common Shares

Dividend Rights

Holders of Common Shares are entitled to receive dividends out of our assets legally available for the payment of dividends at such times and in such amount and form as the Board may from time to time determine, subject to any preferential rights of the holders of any outstanding preferred shares.

Voting Rights

Holders of Common Shares are entitled to one vote per Common Share on all matters upon which holders of Common Shares are entitled to vote.

Meetings of Shareholders

Holders of Common Shares will be entitled to receive notice of any meeting of our shareholders (“Shareholders”) and may attend and vote at such meetings, except those meetings where only the holders of shares of another class or of a particular series are entitled to vote. A quorum for the transaction of business at a meeting of Shareholders is present if one or more Shareholders who, together, hold not less than 25% of the votes

attaching to our outstanding voting shares entitled to vote at the meeting are present in person or represented by proxy.

Pre-Emptive and Redemption Rights

Holders of Common Shares have no pre-emptive or redemption rights.

Liquidation Rights

Upon our liquidation, dissolution or winding-up, whether voluntary or involuntary, the holders of Common Shares, without preference or distinction, will be entitled to receive rateably all of our assets remaining after payment of all debts and other liabilities, subject to any preferential rights of the holders of any outstanding preferred shares.

Preferred Shares

Preferred shares may at any time and from time to time be issued in one or more series. Subject to the provisions of the BCBCA and our Articles, our Board may determine the maximum number of shares of each series, create an identifying name for each series, attach special rights or restrictions to the preferred shares of each series including, without limitation, any right to receive dividends (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms or conditions of redemption or purchase, any conversion rights, any retraction rights, any rights on our liquidation, dissolution or winding up and any sinking fund or other provisions, the whole to be subject to filing a Notice of Alteration to our Notice of Articles to create the series and altering our Articles to include the special rights or restrictions attached to the preferred shares of the series. Except as provided in any special rights or restrictions attaching to any series of preferred shares issued from time to time, the holders of preferred shares will not be entitled to receive notice of, attend or vote at any meeting of Shareholders.

Preferred shares of each series, if and when issued, will, with respect to the payment of dividends, rank on a parity with the preferred shares of every other series and be entitled to preference over the Common Shares and any other of our shares ranking junior to the preferred shares with respect to payment of dividends. In the event of our liquidation, dissolution or winding up, whether voluntary or involuntary, the holders of preferred shares will be entitled to preference with respect to distribution of our property or assets over the Common Shares and any other of our shares ranking junior to the preferred shares with respect to the repayment of capital paid up on and the payment of unpaid dividends accrued on the preferred shares. We currently anticipate that there will be no pre-emptive, subscription, redemption or conversion rights attaching to any series of preferred shares issued from time to time.

Advance Notice Provisions

We have included advance notice provisions with respect to the election of our directors in our Articles (the “**Advance Notice Provisions**”). The Advance Notice Provisions are intended to: (i) facilitate orderly and efficient annual general meetings or, where the need arises, special meetings; (ii) ensure that all Shareholders receive adequate notice of Board nominations and sufficient information with respect to all nominees; and (iii) allow Shareholders to register an informed vote. Only persons who are nominated by Shareholders in accordance with the Advance Notice Provisions will be eligible for election as directors at any annual meeting of Shareholders, or at any special meeting of Shareholders if one of the purposes for which the special meeting was called was the election of directors.

Under the Advance Notice Provisions, a Shareholder wishing to nominate a director would be required to provide us notice, in the prescribed form, within the prescribed time periods. These time periods include: (i) in the case of an annual meeting of Shareholders (including special meetings that are also annual meetings), not less than 30 days prior to the date of the annual meeting of Shareholders; provided, that if the first public announcement of the date of the annual meeting of Shareholders (the “**Notice Date**”) is less than 50 days before the meeting date, not later than the close of business on the 10th day following the Notice Date; and (ii) in the case of a special meeting (which is not also an annual meeting) of Shareholders called for any purpose which includes electing directors, not later than the close of business on the 15th day following the Notice Date, provided that, in either instance, if notice-and-access (as defined in National Instrument 54-101 — Communication with Beneficial Owners of Securities of a Reporting Issuer) is used for delivery of proxy related materials in respect of a meeting described above, and the Notice Date in respect of the meeting is not less than 50 days prior to the date of the

applicable meeting, the notice must be received not later than the close of business on the 40th day before the applicable meeting.

Forum Selection

We have included a forum selection provision in our Articles that provides that, unless we consent in writing to the selection of an alternative forum, the Supreme Court of British Columbia, Canada, and the appellate courts therefrom, will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on our behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us; (iii) any action or proceeding asserting a claim arising pursuant to any provision of the BCBCA or our Articles; or (iv) any action or proceeding asserting a claim otherwise related to the relationships among us, our affiliates and their respective Shareholders, directors and/or officers, but excluding claims related to our business or such affiliates. The forum selection provision also provides that our securityholders are deemed to have consented to personal jurisdiction in the Province of British Columbia and to service of process on their counsel in any foreign action initiated in violation of the foregoing provisions.

MARKET FOR SECURITIES

The Common Shares are listed on the TSX and are traded under the symbol “PL”. The high and low reported trading price and volumes of Common Shares on the TSX during 2019 were as follows:

Month	High	Low	Volume
January	\$13.05	\$10.78	463,200
February	\$11.08	\$8.53	2,910,100
March	\$12.24	\$10.35	1,004,600
April	\$12.95	\$11.31	513,300
May	\$12.42	\$10.28	629,000
June	\$10.88	\$9.33	597,900
July	\$10.47	\$9.50	416,300
August	\$10.67	\$8.95	732,200
September	\$11.51	\$9.21	800,100
October	\$9.74	\$5.98	1,946,200
November	\$9.17	\$7.13	964,800
December	\$10.20	\$8.11	679,600

DIRECTORS AND EXECUTIVE OFFICERS

The names and jurisdiction of residence of the directors and executive officers of the Company, their respective positions and offices held with the Company and their principal occupation for the last five or more years are shown below as at the date hereof. Directors are elected to serve until the next annual meeting or until their successors are elected or appointed, unless their office is earlier vacated.

Name, Province or State and Country of Residence	Current Office with the Company	Office Held Since	Background
Gregory Baylin ⁽¹⁾⁽²⁾⁽⁴³⁾⁽⁵⁾ Ontario, Canada	Director and Chair of the Board	2011	Mr. Baylin is a Managing Partner and Co-Head at ONCAP and has been a director of the Company since December 6, 2010.
Pat Bell ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ BC, Canada	Director and Vice Chair of the Board	2015	Mr. Bell has been a director of Pinnacle since 2015. In 2014 he was an Executive Vice President with Conifex Timber Inc. Prior to this, he served three terms in the B.C. Legislature and held a number of high profile positions with the Provincial government, including Minister of Jobs, Tourism and Skills

			Training, Minister of Forests and Range and Minister of Agriculture. Mr. Bell and his family continue to own number of businesses in the hospitality sector including a variety of restaurants and a winery.
Michael Lay ⁽²⁾⁽⁴³⁾⁽⁵⁾ Ontario, Canada	Director	2012	Mr. Lay is the Managing Partner and Co-Head of ONCAP and has been a director of the Company since May 2, 2012.
Hugh MacDiarmid ⁽³⁾⁽⁴⁾⁽⁵⁾ Ontario, Canada	Director	2018	Mr. MacDiarmid was appointed as a director of the Company on January 3, 2018. He is also currently a director of SeaCube Container Leasing Limited and Terrestrial Energy Inc.
Robert McCurdy ⁽⁵¹⁾ B.C., Canada	Chief Executive Officer and Director	2012 (CEO) 2013 (Director)	Mr. McCurdy was appointed Chief Executive Officer of Pinnacle in September 2012 and has been a director of Pinnacle since 2013.
Rex McLennan ⁽³⁾⁽⁴⁾⁽⁵⁾ B.C., Canada	Director	2019	Mr. McLennan was appointed as director of the Company on November 12, 2019. He also currently serves as a board member of Endeavour Silver of Vancouver, BC.
Jane O'Hagan ⁽¹⁾⁽³²⁾⁽⁴⁾⁽⁵⁾ Alberta, Canada	Director	2018	Ms. O'Hagan was appointed as a director of the Company on January 3, 2018. She also currently serves as a board member of USD Partners GP LLC, the general partner of USD Partners LP, based in Houston, Texas and The Descartes Systems Group Inc. of Waterloo, Ontario.
Leroy Reitsma B.C., Canada	Senior Advisor and Director	2011	Mr. Reitsma was appointed President and Chief Operating Officer of the Company in May 2011 and remained in this position until June 28, 2019 when he transitioned into his current role as Senior Advisor. He has been a director of the Company since May 6, 2011. He currently provides advice to the executive and management team with a special focus on strategic direction and growth.
Andrea Johnston B.C., Canada	Chief Financial Officer	2017	Ms. Johnston was appointed Chief Financial Officer of Pinnacle in March 2017. Previously, she served as the Chief Financial Officer of Dassault Systemes GEOVIA and Natural Resources Industry from 2014 to 2017, and the Chief Financial Officer of NGRAIN from 2011 to 2013.
Scott Bax B.C., Canada	Chief Operating Officer	2013	Mr. Bax was appointed Senior Vice President, Operations of Pinnacle in August 2013. He was promoted to Chief Operating Officer effective July 2, 2019.
Vaughan Bassett B.C., Canada	Senior Vice President, Sales and Logistics	2011	Mr. Bassett was appointed Senior Vice President, Sales and Logistics of Pinnacle in May 2011.
Adnan Khan B.C., Canada	Vice President, Strategic Capital	2019	Mr. Khan was appointed Vice President, Strategic Capital in 2019. Prior to joining Pinnacle, Adnan served as Division Manager at Allnorth Consultants Limited where he safely and efficiently implemented new and

			innovative technologies for the OSB and mining industries. He also served as Director of Automation for Ainsworth Engineered and was responsible for identifying and safely executing continuous improvement projects for multiple OSB facilities.
Ranj Sangra B.C., Canada	General Counsel & Corporate Secretary	2018	Mr. Sangra was appointed General Counsel & Corporate Secretary in July 2018. Previously, he held a number of positions at Ritchie Bros Auctioneers from October 2008 – July 2018, and most recently as Vice President, Legal Affairs.
Erin Strong B.C., Canada	Director of Human Resources	2016	Ms. Strong was appointed Director of Human Resources of Pinnacle in July 2016. Previously, she was a Director of Human Resources at the Mark Anthony Group for over 10 years.

Notes:

- (1) Mr. McCurdy has notified the Board of his intention to retire as the CEO of the Company on October 31, 2020.
- (2) Member of the Risk Committee.
- (3) Member of the GN&C Committee.
- (4) Member of the Audit Committee.
- (5) Independent director for the purposes of the National Instrument 58-101 – Disclosure of Corporate Governance Practices of the Canadian Securities Administrators.

Ownership Interest

Our directors and executive officers, as a group, beneficially own, or control or direct, directly or indirectly, 4.6% of our issued and outstanding Common Shares.

In addition, the ONCAP Entities beneficially own, or control or direct, directly or indirectly, 31.2% of our issued and outstanding Common Shares. Two of our directors are affiliated with the ONCAP Entities.

Cease Trade Orders

To the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such individuals) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Company), that: (i) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an “**Order**”), that was issued while the individual was acting in the capacity as a director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the individual ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that individual was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

To the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such individuals): (i) is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including the Company) that, while that individual was acting in that capacity, or within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating

to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such individuals) has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable holder of Common Shares in deciding whether to vote for the proposed director.

Conflicts of Interest

To the knowledge of the Company, no director or executive officer of the Company has an existing or potential conflict of interest with the Company.

Board Committees

Our Board currently has three committees: the Audit Committee, the Governance, Nominating and Compensation Committee and the Risk Committee (each defined below).

Audit Committee

Our audit committee (the “**Audit Committee**”) consists of four directors, all of whom are persons determined by our Board to be both independent directors and financially literate within the meaning of NI 52-110. The Audit Committee is comprised of Rex McLennan, who was appointed as chair of this committee on January 15, 2020, Hugh MacDiarmid, Jane O’Hagan and Pat Bell. Each of the Audit Committee members has an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

Relevant Education and Experience

The following is a brief summary of the education and experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles we use to prepare our annual and interim financial statements.

Rex McLennan

Mr. McLennan is a seasoned independent corporate director and former C-level executive whose career includes over 30 years of leadership experience as a financial executive in large, complex, multinational resource-based companies. Mr. McLennan has held numerous senior level positions with public and private companies during his career, including an early career with Imperial Oil Limited, followed by EVP CFO roles with Placer Dome Inc., Vancouver 2010 Olympic Organizing Committee and Viterra Inc. He holds an MBA (Finance & Accounting) from McGill and BSc (Mathematics & Economics) from UBC. Mr. McLennan is a member of the Institute of Corporate Directors (Canada) and received his ICD.D designation in June 2013. He also serves as independent director of several public and private companies.

Hugh MacDiarmid

Mr. MacDiarmid’s executive appointments have included serving as President & CEO of Atomic Energy of Canada Limited from 2008 to 2011, President & CEO of Laidlaw Transit Inc. from 2003 to 2005, Executive Vice-President of Commercial of Canadian Pacific Railway from 1995 to 2001 and President & CEO of Lumonics Inc. from 1987 to 1990. Early in his career, Mr. MacDiarmid was an Associate and then Principal with McKinsey & Company, a leading international management consulting firm. Mr. MacDiarmid earned his Honours Business Administration from the Richard Ivey School of Business at University of Western University in Ontario and his MBA from Stanford University, graduating as a Miller Scholar.

Jane O'Hagan

Ms. O'Hagan most recently served as the Chief Marketing Officer and Executive Vice President of Canadian Pacific Railway from December 2011 to May 2014. Ms. O'Hagan served as the Senior Vice President of Marketing and Sales of CP Rail from April 2010 to December 2011 and also served as Senior Vice President of Strategy and Yield from November 2008 to December 2009. She served as Vice President of Strategy and External Affairs of CP Rail from 2005 to 2008 and also served as its Vice President of Strategy, Research and New Market Development and Assistant Vice President, Strategy and Research from 2002 to 2005. Ms. O'Hagan holds a Bachelor of Arts (Hons.) and a Bachelor of Administrative and Commercial Studies from the University of Western Ontario and has completed graduate studies in Program and Policy Studies from the University of Western Ontario. Ms. O'Hagan is a holder of the Institute of Corporate Directors director designation, which she achieved in June 2016. Ms. O'Hagan also earned a CERT Certificate in Cybersecurity Oversight issued by Carnegie Mellon University and the National Association of Corporate Directors in February 2018.

Pat Bell

In 2014, Mr. Bell was an Executive Vice President with Conifex Timber Inc., a forestry company then listed on the TSX Venture Exchange. Prior to this, he served three terms in the B.C. Legislature and held a number of high profile positions with the Provincial government, including Minister of Jobs, Tourism and Skills Training, Minister of Forests and Range and Minister of Agriculture. Mr. Bell and his family continue to own number of businesses in the hospitality sector including a variety of restaurants and a winery. Mr. Bell earned his Bachelor of Education from the University of British Columbia in 1979.

Our Board has adopted a written charter in the form set forth in Appendix A, setting forth the purpose, composition, authority and responsibility of our Audit Committee, consistent with NI 52-110. The Audit Committee assists our Board in fulfilling its oversight of:

- our financial statements and financial reporting processes;
- our systems of internal accounting and financial controls;
- the annual independent audit of our financial statements;
- legal and regulatory compliance;
- reviewing and recommending debt and equity financings, reviewing and monitoring compliance with debt covenant and reviewing the process and reports with which we measure financial results or performance; and
- public disclosure items such as quarterly press releases, investor relations materials and other public reporting requirements.

It is the responsibility of the Audit Committee to maintain free and open means of communication between the Audit Committee, the external auditors and the management of the Company. The Audit Committee is given full access to the Company's management and records and external auditors as necessary to carry out these responsibilities. The Audit Committee has the authority to carry out such special investigations as it sees fit in respect of any matters within its various roles and responsibilities. The Company shall provide appropriate funding, as determined by the Audit Committee, for the payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

External Auditor Service Fee

For Fiscal 2019 and Fiscal 2018, we incurred the following fees by our external auditor, KPMG LLP:

	Fiscal 2019	Fiscal 2018
Audit Fees ⁽¹⁾	\$483,150	\$386,279
Audit Related Fees ⁽²⁾	50,000	Nil
Tax Fees ⁽³⁾	75,000	174,220
All Other Fees ⁽⁴⁾	Nil	Nil
Total Fees Paid	\$608,150	\$560,499

Notes:

- (1) Fees for audit services, including procedures for consent on initial public offering.
- (2) Fees for assurance and related services not included in audit service above.
- (3) Fees for tax compliance, tax advice and tax planning.
- (4) All other fees not included above.

Governance, Nominating and Compensation Committee

Our governance, nominating and compensation committee (the “**GN&C Committee**”) consists of three directors, all of whom are charged with reviewing, overseeing and evaluating the Company’s compensation, corporate governance and nominating policies. The GN&C Committee is comprised of Gregory Baylin, who acts as chair of the committee, Pat Bell and Michael Lay.

Risk Committee

Our risk committee (the “**Risk Committee**”) consists of three directors, all of whom are persons determined by our Board to be independent directors. The Risk Committee is comprised of Pat Bell, who acts as chair of this Committee, Gregory Baylin and Jane O’Hagan.

The Risk Committee assists the Board in fulfilling its oversight responsibilities with respect to our continuing commitment to, among other things: (i) ensuring the safety of our employees and the public and assuring that our businesses and facilities are operated and maintained in a safe and environmentally sound manner; (ii) sustainability and environmentally friendly operations, including sustainable forestry practices; (iii) ensuring we manage our book of long-term contracts in a prudent manner; and (iv) minimizing the financial risk of external impacts such as foreign exchange and interest rate movements. The Risk Committee reviews and oversees our health, safety, sustainability and environmental policies, programs, issues and initiatives, reviews associated risks that affect or could affect us, our employees and the public and ensures proper management of those risks. The Risk Committee reports to the Board on health, safety, sustainability and environmental matters affecting us, our employees and the public. It also reviews and oversees all material long-term contracts we enter into and regularly reviews our exposure to, among other things, external risks from foreign exchange or interest rate movements.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

We are, from time to time, involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations. See further discussion under “Risk Factors”.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Company, no director or executive officer of the Company, or any of their associates, has or had any material interest, directly or indirectly, in any transaction of the Company within the three most recently completed financial years of the Company that has materially affected or will materially affect the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is TSX Trust Company at its principal office in Vancouver, B.C.

MATERIAL CONTRACTS

The following are the only material contracts of the Company that are in effect (other than certain agreements entered into in the ordinary course of business). The summaries describe the material attributes of each of the material contracts and are subject to, and qualified in their entirety by reference to, the relevant material contract, copies of which have been filed with the Canadian securities regulatory authorities and are available on SEDAR, at www.sedar.com. Investors are encouraged to read the full text of such material agreements.

- (a) the Credit Agreement;
- (b) the Nomination Rights Agreement; and
- (c) the Registration Rights Agreement.

Credit Agreement

On June 14, 2019, we entered into a fourth amended and restated credit agreement with a syndicate of lenders including affiliates of CIBC, RBC, BMO, Scotiabank, National Bank, Export Development Canada, Canadian Western Bank, ATB and HSBC (as amended or supplemented from time to time the “**Credit Agreement**”). The Credit Agreement is comprised of: (i) a revolving credit facility in the amount of up to \$65.0 million maturing on June 14, 2024 (the “**Revolving Credit Facility**”); (ii) a \$280.0 million term credit facility maturing on June 14, 2024 (the “**Term Credit Facility**”); and (iii) a \$185.0 million delayed draw term credit facility maturing on June 14, 2024, subject to certain reductions set out in the Credit Agreement (the “**Delayed Draw Term Credit Facility**” and, collectively with the Revolving Credit Facility and Term Credit Facility, the “**Credit Facilities**”).

As at December 27, 2019, the aggregate amount outstanding under the Credit Agreement was approximately \$328.8 million.

Under the Revolving Credit Facility, letters of credit may be issued by affiliates of Scotiabank (the “**Letters of Credit**”), provided that the aggregate face amount of all Letters of Credit outstanding at any time does not exceed \$7.5 million. In addition, a maximum of \$7.5 million under the Revolving Credit Facility has been designated as the “swingline” to be established and maintained by affiliates of Scotiabank. As at December 27, 2019, Pinnacle was in compliance with all covenants contained in the Credit Agreement, and no material breach of such agreement has occurred or been waived. Each of the Credit Facilities have various interest rate charge options that are based on Canadian prime rates, base rates and LIBOR rates plus the applicable margin from time to time in effect.

The Credit Agreement provides for guarantees by Pinnacle and its direct and indirect wholly-owned subsidiaries. Pinnacle and each of its direct and indirect wholly-owned subsidiaries provide a first priority lien over all property to collateralize the obligations under the Credit Agreement. Pinnacle and each of its direct and indirect wholly-owned subsidiaries have pledged 100% of the equity interests each entity holds in the capital of their respective subsidiaries, as applicable.

The Credit Agreement contains restrictive covenants customary for credit facilities of this nature, including restrictions on Pinnacle and each of its subsidiaries, subject to certain exceptions, to incur indebtedness, grant liens, merge, amalgamate or consolidate with other companies, transfer, lease or otherwise dispose of all or substantially all of its assets, become obligated under guarantees, make certain distributions (though dividends are permitted so long as Pinnacle is in compliance with its covenants), make investments, acquisitions or loans, cease to carry on business, change its fiscal year, enter into material contracts with any related person, carry on or engage in any business on other than arm’s length terms with affiliates, make any restricted use of any advance or enter into restrictive agreements.

Nomination Rights Agreement

We have entered into a nomination rights agreement with the ONCAP Entities (the “**Nomination Rights Agreement**”) pursuant to which the ONCAP Entities have certain director nomination rights. The Board currently

consists of seven directors. Pursuant to the Nomination Rights Agreement, our Board shall not be comprised of more than seven directors unless agreed to by the ONCAP Entities. In addition, the ONCAP Entities will be entitled to nominate: (i) two individuals for election to the Board for so long as the ONCAP Entities beneficially own, directly or indirectly, and in the aggregate, more than 10% of the Common Shares; and (ii) one individual for election to the Board for so long as the ONCAP Entities beneficially own, directly or indirectly, and in the aggregate, 10% or less, but more than 5%, of the Common Shares.

Registration Rights Agreement

In connection with the closing of the IPO on February 27, 2018, we entered into a registration rights agreement (the “**Registration Rights Agreement**”) with ONCAP II L.P., ONCAP (US) II L.P., ONCAP (US) II-A L.P., ONEX Parallel Investment (ONCAP) L.P. and Biomass EI Ltd. (collectively, the “**ONCAP Entities**”) and Rob Swaan Holdings Inc., Jim Swaan Holdings Inc. and Beckman Holdings Inc. The Registration Rights Agreement provides the ONCAP Entities with certain rights to require Pinnacle to file a prospectus in order to facilitate certain secondary sales of Common Shares by the ONCAP Entities, and also provide for certain “piggyback rights” given in favor of Rob Swaan Holdings Inc., Jim Swaan Holdings Inc., Beckman Holdings Inc. and their respective successors and transferees.

Unless earlier terminated by written agreement of Pinnacle and the ONCAP Entities, the registration rights will expire on the earlier of (i) the date on which the ONCAP Entities collectively own less than 5% of the total issued and outstanding Common Shares and (ii) February 27, 2023 (the five year anniversary of the IPO).

INTERESTS OF EXPERTS

The Company’s auditor is KPMG LLP, Chartered Professional Accountants, located at Vancouver, British Columbia. KPMG LLP has prepared an independent auditor’s report dated March 2, 2020 in respect of the consolidated financial statements of the Company as at December 27, 2019 and December 28, 2018 and for each of the years then ended. KPMG LLP has advised that they are independent with respect to the Company within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our Company’s securities and securities authorized for issuance under equity compensation plans, will be contained in the Company’s management information circular for the 2020 annual meeting of Shareholders. Additional financial information is provided in the Company’s audited annual consolidated financial statements and management’s discussion and analysis of our financial condition and results of operations for our most recently completed fiscal year ended December 27, 2019. Such documentation, as well as additional information relating to the Company, may be found under the Company’s profile on SEDAR at www.sedar.com, and on Pinnacle’s website at www.pinnaclepellet.com in the Investors section.

APPENDIX A – AUDIT COMMITTEE CHARTER

This charter (the “**Charter**”) sets forth the purpose, composition, responsibilities and authority of the Audit Committee (the “**Committee**”) of the board of directors (the “**Board**”) of Pinnacle Renewable Energy Inc. (the “**Company**”).

1. Purpose

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

- financial reporting and related financial disclosure;
- the implementation of risk management and internal control over financial reporting and disclosure controls and procedures; and
- external and internal audit processes.

2. Composition and Qualification

The Committee shall be comprised of three directors, each of whom will be an independent director, as defined in Multilateral Instrument 52-110 — Audit Committees, as adopted by the Ontario Securities Commission.

All members of the Committee shall be financially literate and thus be able to read and understand a set of financial statements that have a level of complexity of accounting that is comparable to that of the Company’s financial statements. At least one member of the Committee shall have accounting or related financial expertise. This could include past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer of an entity with financial oversight responsibilities.

3. Audit Committee Agenda and Meetings

The Committee will meet on a quarterly basis and will hold special meetings as circumstances require. The timing of the meetings shall be determined by the Committee. The Committee may engage external advisors as it deems necessary, with notice to the lead director, and may set the compensation for such advisors.

At all Committee meetings a majority of the members shall constitute a quorum.

4. Committee Membership

The Committee shall consist of as many directors of the Board as the Board may determine (the “**Members**”), but in any event, not less than 3 (three) Members. Each Member shall meet the criteria for independence and financial literacy established by applicable laws and the rules of any stock exchanges upon which the Company’s securities are listed, including National Instrument 52-110 — Audit Committees (“**NI 52-110**”) subject to any exceptions permitted under NI 52-110. NI 52-110 also requires that to be independent, a Member be free of any relationship which could, in the view of the Board, reasonably interfere with the exercise of a Member’s independent judgment.

Members shall be appointed by the Board, taking into account any recommendation that may be made by the Governance, Nominating and Compensation Committee of the Board (the “**GN&C Committee**”). Any Member may be removed and replaced at any time by the Board, and will automatically cease to be a Member if he or she ceases to meet the qualifications required of Members. The Board will fill vacancies on the Committee by appointment from among qualified directors of the Board, taking into account any recommendation that may be made by the GN&C Committee. If a vacancy exists on the Committee, the remaining Members may exercise all of its powers so long as there is a quorum.

Chair

The Board will designate one of the independent directors of the Board to be the chair of the Committee (the “**Chair**”), taking into account any recommendation that may be made by the GN&C Committee.

Qualifications

At least 3 (three) Members shall be independent and financially literate as described above. Members must have suitable experience and must be familiar with auditing and financial matters.

Attendance of Ex Officio Members, Management and other Persons

The Committee may invite, at its discretion, senior executives of the Company or such persons as it sees fit to attend meetings of the Committee and to take part in the discussion and consideration of the affairs of the Committee. The Committee may also require senior executives or other employees of the Company to produce such information and reports as the Committee may deem appropriate in the proper exercise of its duties. Senior executives and other employees of the Company shall attend a Committee meeting if invited by the Committee. The Committee may meet without senior executives in attendance for a portion of any meeting of the Committee.

Delegation

Subject to applicable law, the Committee may delegate any or all of its functions to any of its Members or any sub-set thereof, or other persons, from time to time as it sees fit.

5. Committee Operations

Meetings

The Chair, in consultation with the other Members, shall determine the schedule and frequency of meetings of the Committee. Meetings of the Committee shall be held at such times and places as the Chair may determine. To the extent possible, advance notice of each meeting will be given to each Member unless all Members are present and waive notice, or if those absent waive notice before or after a meeting. Members may attend all meetings of the Committee either in person or by telephone, video or other electronic means. Powers of the Committee may also be exercised by written resolutions signed by all Members.

At the request of the external auditors of the Company, the Chief Executive Officer or the Chief Financial Officer of the Company or any Member, the Chair shall convene a meeting of the Committee. Any such request shall set out in reasonable detail the business proposed to be conducted at the meeting so requested.

Agenda and Reporting

To the extent possible, in advance of every regular meeting of the Committee, the Chair shall prepare and distribute, or cause to be prepared and distributed, to the Members and others as deemed appropriate by the Chair, an agenda of matters to be addressed at the meeting together with appropriate briefing materials. The Committee may require senior executives and other employees of the Company to produce such information and reports as the Committee may deem appropriate in order for it to fulfill its duties.

The Chair shall report to the Board on the Committee's activities since the last Board meeting. However, the Chair may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board. Minutes of each meeting of the Committee shall be circulated to the Directors following approval of the minutes by the Members. The Committee shall oversee the preparation of, review and approve the applicable disclosure for inclusion in the Company's annual information form.

Secretary and Minutes

The secretary of the Company may act as secretary of the Committee unless an alternative secretary is appointed by the Committee. The secretary of the Committee shall keep regular minutes of Committee proceedings and shall circulate such minutes to all Members and to the chair of the Board (and to any other Director that requests that they be sent to him or her) on a timely basis.

Quorum and Procedure

A quorum for any meeting of the Committee will be a simple majority. The procedure at meetings will be determined by the Committee. The powers of the Committee may be exercised at a meeting where a quorum is present or by resolution in writing signed by all Members. In the absence of the Chair, the Committee may appoint one of its other Members to act as Chair of any meeting.

Exercise of Power between Meetings

Between meetings, the Chair, or any Member designated for such purpose by the Committee, may, if required in the circumstance, exercise any power delegated by the Committee on an interim basis. The Chair or other designated Member will promptly report to the other Members in any case in which this interim power is exercised.

6. Duties and Responsibilities

The Committee is responsible for performing the duties set out below and any other duties that may be assigned to it by the Board as well as any other functions that may be necessary or appropriate for the performance of its duties.

Financial Reporting and Disclosure

Review and recommend to the Board for approval, the audited annual financial statements, including the auditors' report thereon, the quarterly financial statements, management discussion and analysis, financial reports, and other applicable financial disclosure, prior to the public disclosure of such information.

Review and recommend to the Board for approval, where appropriate, financial information contained in any prospectuses, annual information forms, annual reports to shareholders, management proxy circulars, material change disclosures of a financial nature and similar disclosure documents prior to the public disclosure of such documents or information.

Review with senior executives of the Company, and with external auditors, significant accounting principles and disclosure issues and alternative treatments under International Financial Reporting Standards (“**IFRS**”), with a view to gaining reasonable assurance that financial statements are accurate, complete and present fairly the Company's financial position and the results of its operations in accordance with IFRS, as applicable.

Seek to ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, the Company's disclosure controls and procedures and periodically assess the adequacy of those procedures and recommend any proposed changes to the Board for consideration.

Internal Controls and Internal Audit

Review the adequacy and effectiveness of the Company's internal control and management information systems through discussions with senior executives of the Company and the external auditor relating to the maintenance of (i) necessary books, records and accounts in sufficient detail to accurately and fairly reflect the Company's transactions; (ii) effective internal control over financial reporting; and (iii) adequate processes for assessing the risk of material misstatements in the financial statements and for detecting control weaknesses or fraud. From time to time the Committee shall assess any requirements or changes with respect to the establishment or operations of the internal audit function having regard to the size and stage of development of the Company at any particular time.

Satisfy itself, through discussions with senior executives of the Company that the adequacy of internal controls, systems and procedures has been periodically assessed in accordance with regulatory requirements and recommendations.

Review and discuss the Company's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

Review and make recommendations to the Board regarding, the adequacy of the Company's risk management policies and procedures with regard to identification of the Company's principal risks and implementation of appropriate systems and controls to manage such risks including an assessment of the adequacy of insurance coverage maintained by the Company.

Periodically review the Company's policies and procedures for reviewing and approving or ratifying related party transactions.

External Audit

Recommend to the Board a firm of external auditors to be nominated for appointment as the external auditor of the Company.

Ensure the external auditors report directly to the Committee on a regular basis.

Review the independence of the external auditors.

Review and recommend to the Board the fee, scope and timing of the audit and other related services rendered by the external auditors.

Review the audit plan of the external auditors prior to the commencement of any audit.

Establish and maintain a direct line of communication with the Company's external auditors.

Meet in camera with only the auditors, senior executives of the Company, or the Members, where and to the extent that, such parties are present, at any meeting of the Committee.

Oversee the work of the external auditors of the Company with respect to preparing and issuing an audit report or performing other audit or review services for the Company, including the resolution of issues between senior executives of the Company and the external auditors.

Review the results of the external audit and the external auditor's report thereon, including, discussions with the external auditors as to the quality of accounting principles used and any alternative treatments of financial information that have been discussed with senior executives of the Company and any other matters.

Review any material written communications between senior executives of the Company and the external auditors and any significant disagreements between the senior executives and the external auditors.

Discuss with the external auditors their perception of the Company's financial and accounting personnel, records and systems, the cooperation which the external auditors received during their course of their review and availability of records, data and other requested information and any recommendations with respect thereto.

Discuss with the external auditors their perception of the Company's identification and management of risks, including the adequacy or effectiveness of policies and procedures implemented to mitigate such risks.

Review the reasons for any proposed change in the external auditors which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed auditors before making its recommendations to the Board.

Review annually a report from the external auditors in respect of their internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to address any such issues.

Associated Responsibilities

Monitor and periodically review the Whistleblower Policy of the Company and associated procedures for:

- the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
- the confidential, anonymous submission by directors, officers and employees of the Company of concerns regarding questionable accounting or auditing matters; and
- if applicable, any violations of applicable law, rules or regulations that relates to corporate reporting and disclosure, or violations of the Company's Code of Conduct.

Review and approve the Company's hiring policies regarding employees and partners, and former employees and partners, of the present and former external auditors of the Company.

Non-Audit Services

Pre-approve all non-audit services to be provided to the Company or any subsidiary entities by its external auditors or by the external auditors of such subsidiary entities. The Committee may delegate to one or more of its Members the authority to pre-approve non-audit services but pre-approval by such Member or Members so delegated shall be presented to the full Committee at its first scheduled meeting following such pre-approval.

Other Duties

Direct and supervise the investigation into any matter brought to its attention within the scope of the Committee's duties. Perform such other duties as may be assigned to it by the Board from time to time or as may be required by applicable law.

7. The Committee Chair

In addition to the responsibilities of the Chair described above, the Chair has the primary responsibility for overseeing and reporting on the evaluations to be conducted by the Committee, as well as monitoring developments with respect to accounting and auditing matters in general and reporting to the Committee on any related significant developments.

8. Committee Evaluation

The performance of the Committee shall be evaluated by the Board as part of its regular evaluation of the Board committees.

9. Access to Information and Authority to Retain Independent Advisors

The Committee shall be granted unrestricted access to all information regarding the Company that is necessary or desirable to fulfill its duties and all directors of the Company, officers and employees will be directed to cooperate as requested by Members. The Committee has the authority to retain, at the Company's expense, independent legal, financial, and other advisors, consultants and experts to assist the Committee in fulfilling its duties and responsibilities, including sole authority to retain and to approve their fees. The Committee shall select such advisors, consultants and experts after taking into consideration factors relevant to their independence from management and other relevant considerations.

The Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the external advisers, in accordance with its business judgment. Members are entitled to rely, absent knowledge to the contrary, on the integrity of the persons and organizations from whom they receive information, and on the accuracy and completeness of the information provided. Nothing in this Charter is intended or may be construed as imposing on any member of the Committee or the Board a standard of care or diligence that is in any way more onerous or extensive than the standard to which the directors are subject under applicable law.

The Committee also has the authority to communicate directly with internal and external auditors. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate or comply with IFRS and other applicable requirements. These are the responsibilities of the senior executives of the Company responsible for such matters and the external auditors. The Committee, the Chair and any Members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day to day operation or performance of such activities. Although the designation of a Member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Member who is identified as having accounting or related financial expertise, like the role of all Members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure. This Charter is not intended to change or interpret the constating documents of the Company or applicable law or stock exchange rule to which the Company is subject, and this Charter should be interpreted in a manner consistent with all such applicable laws and rules. Certain of the provisions of this Board Mandate may be modified or superseded by the provisions of the nomination rights agreement (the "**Nomination Rights Agreement**"). In the event of a conflict between this Charter and the Nomination Rights Agreement, the Nomination Rights Agreement shall prevail.

The Board may, from time to time, permit departures from the terms of this Charter, either prospectively or retrospectively. This Charter is not intended to give rise to civil liability on the part of the Company or its Directors

or officers to shareholders, security holders, customers, suppliers, competitors, employees or other persons, or to any other liability whatsoever on their part.

10. Review of Charter

The Committee shall periodically review and assess the adequacy of this Charter and recommend any proposed changes to the Board for consideration.

11. Questions:

If you have questions about this Policy, please contact the CEO or CFO.

This Audit Committee Charter is dated February 20, 2019.