Pinnacle
RENEWABLE ENERGY

Third Quarter Report

For the thirteen and thirty-nine weeks ended September 25, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Introduction and Basis of Presentation

The following management's discussion and analysis ("MD&A") dated November 9, 2020 provides information concerning the financial condition and results of operations of Pinnacle Renewable Energy Inc. ("we", "us", "our", the "Company" or "Pinnacle") for the 13-week and 39-week periods ended September 25, 2020 ("Q3 2020" and "YTD 2020"). This MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and accompanying notes for Q3 2020, as well as our audited consolidated financial statements and accompanying notes for the 52 week period ended December 27, 2019 ("Fiscal 2019"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and our annual MD&A for Fiscal 2019. This MD&A contains certain non-IFRS measures which, within the non-IFRS Measures section, are discussed, defined and reconciled to figures reporting in the Company's consolidated financial statements.

Basis of Presentation

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

The information in this report is current as of November 9, 2020, which is the date of filing in conjunction with our press release announcing our results for Q3 2020. Disclosure contained in this document is current to November 9, 2020, unless otherwise stated.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Some of the specific forward-looking information contained herein include, but are not limited to, statements with respect to: our expectations regarding growth in biomass-based fuel sources within the European and Asian power generating portfolio; growth in global demand for wood pellets; anticipated supply delivery times under our off-take contracts; anticipated capital cost and maintenance capital expenditures required by our facilities; COVID-19 and anticipated production from our facilities.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the factors discussed in the "Risks and Uncertainties" section of this MD&A and in the "Risk Factors" section of our Annual Information Form ("AIF") dated March 31, 2020, which can be accessed under the Company's profile on SEDAR at www.sedar.com. The Company cautions that the list of risk factors and uncertainties described herein and in the AIF are not intended to represent a complete list of the factors that could affect us. Readers are urged to consider such risks, uncertainties, and factors carefully in evaluating the forward-looking information, and are cautioned to not place undue reliance on such information.

Any forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. Future-oriented financial information ("FOFI") contained in this MD&A was made as of the date hereof and was provided for the purpose of providing shareholders with information on Pinnacle's financial outlook.

Pinnacle disclaims any intention or obligation to update or revise any forward-looking information or FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable securities laws in Canada. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

OVERVIEW OF THIRD QUARTER, 2020

Revenue was $131.7 million in Q3 2020, compared with $92.6 million in the 13-week period ended September 27, 2019 ("Q3 2019"); net income was $7.7 million versus a net loss of $1.5 million in Q3 2019.

Net income for Q3 2020 included $2.7 million of net insurance benefits related to the Entwistle incident (see below) compared with $1.5 million of net insurance benefits related to the Entwistle incident in Q3 2019. Excluding these benefits, net income would have been $5.0 million in Q3 2020 compared to a loss of $3.0 million in Q3 2019.

Adjusted Gross Margin(1) ("AGM") in Q3 2020 was $31.7 million compared to $17.9 million in Q3 2019. Excluding the net insurance benefits relating to the Entwistle incident, AGM in Q3 2020 would have been $29.1 million or 22.1% of revenue compared to $15.8 million or 17.1% of revenue in Q3 2019.

Adjusted EBITDA(1) for Q3 2020 was $26.1 million compared to $13.6 million in Q3 2019. Excluding the net insurance benefits relating to the Entwistle incident, Adjusted EBITDA in Q3 2020 would have been $23.4 million or 17.8% of revenue compared to $11.5 million or 12.4% in Q3 2019.

Capital expenditures net of non-controlling interests totaled $29.3 million in the quarter, including $27.0 million on growth-related projects, compared with $9.7 million in the same quarter last year.

Net debt as at the end of the quarter was $389.4 million resulting in available liquidity of $169.6 million. Net debt includes $89.7 million of indebtedness relating to capital expenditures on growth-related projects for non-commissioned assets.

STRATEGIC CONTEXT

The positive momentum we experienced in the second quarter of 2020 ("Q2 2020") continued into Q3 2020 in spite of the many challenges associated with the on-going COVID-19 pandemic, resulting in the best quarterly performance in the Company's history. Pinnacle's strategy of investing in both new capacity and production efficiency has delivered strong gains in productivity and cost reductions while setting the stage for the Company to grow its revenue base and profitability.

Pinnacle has earned its position in the top tier of the global wood pellet industry through consistent attention to quality, reliability of supply and service to our customers. These priorities, along with the goals of delivering outstanding returns to our shareholders, safe and rewarding careers for our employees, and economic and environmental benefits for the communities in which we

(1) See "Non-IFRS Measures" for definition of the items discussed below and as well as reconciliations of non-IFRS measure with the most directly comparable IFRS measures.

operate, will continue to guide our business strategy into the future. We also gain comfort knowing that our products play a role in addressing the challenges of global climate change.

FACTORS IMPACTING THIRD QUARTER, 2020

Warmer Weather, Lower Fibre Costs and Returns From Capital Investments Drive Record Production and Profitability

The combination of warmer and drier weather, lower fibre costs and the returns associated with the Company's capital investment activities contributed to record production and profitability in Q3 2020. Pellet production in Q3 2020 was 587 kMT, 69 kMT or 13% above our previous record of 518 kMT in Q2 2020, and 145 kMT or 33% higher than Q3 2019. Viewed on a per day basis, production in Q3 2020 was 6,449 MT versus 5,694 MT in Q2 2020 and 4,852 MT in Q3 2019.

Strong performance gains were recorded at a number of plants in Q3 2020 led by Williams Lake which benefited from the completion of its dryer upgrade project in the prior quarter, increasing production by more than 47% quarter over quarter. The Entwistle mill continued its ramp up process during the quarter, increasing production by more than 6% quarter-over-quarter.

Sawmill residuals increased to 84% of the Company's feedstock in Q3 2020 compared with 74% in Q2 2020 as the strong lumber market resulted in higher operating rates in that sector. Overall, our fibre costs were down 2% quarter-over-quarter. During the quarter, we reduced our fibre inventories by 10% due to our increased confidence regarding the availability of sawmill residuals.

The combination of lower fibre costs, higher mill-level productivity and the benefits of warmer and drier weather contributed to a 7% reduction in our unit production costs quarter-over-quarter. This reduction in production costs contributed to a 46% increase in AGM in Q3 2020, net of the influences of insurance proceeds, versus Q2 2020 and a similar increase in Adjusted EBITDA, the highest recorded by the Company.

Logistics Issues Negatively Impact Results

The Company's results in Q3 2020 were achieved in spite of service failures at CN Rail ("CN") and the Fibreco Terminal ("Fibreco") in North Vancouver that negatively impacted production in Q3 2020 by an estimated 20 kMT and resulted in approximately $0.6 million in additional rail, distribution and demurrage costs during the quarter. Significant time and attention is being directed to the CN service issue with the goal of improving service levels. The issue at Fibreco was caused by a structural failure of a recently constructed grain silo which required us to re-route a ship that was originally scheduled to load at Fibreco to our wholly-owned port facility in Prince Rupert. It also required us to re-route rail cars from Fibreco to Prince Rupert. Fibreco resumed operations in mid-October.

Entwistle Insurance Settlement Completed

In Q3 2020, we reached a final settlement with respect to an insurance claim related to the previously disclosed incident that occurred at the dryer area of our Entwistle facility in February 2019. We settled the claim for a total of $29.2 million (net of $1 million deductible). As a result, $2.6 million of additional business interruption insurance recoveries were booked as an offset of production costs and $1.1 million of additional capital cost recoveries were booked as other income in Q3 2020. A total of $4.3 million was recorded in accounts receivable at the end of Q3 2020 and is anticipated to be received in Q4 2020. In Q3 2019, $4.0 million of business interruption insurance recoveries were recorded as an offset of production costs.

PROGRESS ON GROWTH-RELATED CAPITAL PROJECTS

Capital expenditures net of non-controlling interests on growth-related projects amounted to $27.0 million in Q3 2020 as the Company continued to drive forward with initiatives to build out and diversify its operating platform. These figures compare to spending on growth-related projects of $9.7 million in Q3 2019.

High Level Construction Advancing; Capital for Rail Infrastructure Authorized

- Construction of the new 200k MT mill at High Level, Alberta advanced during Q3 2020. The 200k MT per year mill will be 50% owned by Pinnacle and 50% owned by Tolko Industries Inc. ("Tolko").
- The project remains on schedule for commissioning in the fourth quarter of 2020.
- Production readiness processes are well advanced including staff training.
- Additional costs incurred to advance the project during periods of significant rain, improve engineering design and enhanced safety will add an additional $6.8 million to the project which will be split evenly between Pinnacle and Tolko. Despite the extra costs incurred in the construction of High Level, management is confident that this project will generate acceptable returns.
- The total cost of the project, including associated rail infrastructure, is $70.6 million, with Pinnacle's 50% share amounting to $35.3 million. Pinnacle contributed $7.9 million to the project in Q3 2020, bringing the Company's total project expenditures to $23.4 million or approximately 66% of budgeted costs.

Demopolis Construction Proceeds as Planned

- Construction also continued during the quarter on the 360 kMT per year mill in Demopolis, Alabama. The mill will be owned and operated by Alabama Pellets LLC, in which Pinnacle has a 70% interest.
- Good progress was made in the quarter on underground services, foundations and structural steel for the hammermill and pellet buildings, hammermill and dryer area mechanical installations, and the domes for pellet storage. The project is progressing as planned, with commissioning expected in the second quarter of 2021.
- The total authorized capital spend for the project is $135.0 million, with Pinnacle's 70% share amounting to $94.6 million. Pinnacle contributed $13.1 million to the project in Q3 2020, bringing total project expenditures to $39.9 million or approximately 42% of budgeted costs.

Aliceville Phase 2 Project Nearing Completion

- The Company completed the Phase 2 Project at its mill in Aliceville, Alabama in early October. The mill is owned and operated by Alabama Pellets LLC, in which Pinnacle has a 70% interest. This project adds a truck unloading system to the mill's infrastructure and broadens access to additional supplies of sawmill residuals on a go-forward basis, supporting the Company's goal of boosting production volumes at the mill. Pinnacle contributed $2.0 million on the Aliceville project in Q3 2020, bringing total expenditures to approximately $3.9 million or 78% of budget at quarter-end.

Meadowbank WESP Upgrade Restarted

- The Meadowbank WESP upgrade, which was halted temporarily during the initial stages of the COVID-19 outbreak, was restarted during the quarter. This upgrade will enhance the operating flexibility of the facility and allow Pinnacle to continue to adapt to cyclical changes in wood fibre supply within the B.C. Interior. The upgrade is expected to increase the mill's production capacity by 30 kMT per annum.
- The project is progressing as planned and is on-budget, with commissioning expected in the fourth quarter of 2020 ("Q4 2020").
- The total authorized capital spend for the project is $9.5 million. Pinnacle spent $2.4 million on the project in Q3 2020, bringing total project expenditures to-date to $5.6 million or approximately 59% of budgeted costs.

Completion of these projects is expected to increase Pinnacle's overall production capacity by almost 20% to 2.8 million MT, and increase the production comprised by facilities located in jurisdictions outside of B.C. to approximately 44%.

NEW CEO APPOINTED

On October 14, 2020 Pinnacle announced the appointment of Duncan Davies as Chief Executive Officer effective November 1, 2020, replacing the current CEO, Rob McCurdy, whose retirement plans were announced earlier this year. From 2000 to 2019, Mr. Davies served as President & CEO of Interfor Corporation, a growth-oriented, publicly-traded forest products company with operations in Canada and the United States. Mr. Davies will be based at Pinnacle's headquarters in Richmond, B.C. and will continue to serve on the Company's Board of Directors, which he joined in April 2020.

OUTLOOK

Customer demand for wood pellets remains strong. In Q4 2020 we expect to see positive year-over-year production increases as the Entwistle Facility operates at full capacity, benefits are realized from the upgrades at Williams Lake, Meadowbank, and Aliceville and the facility at High Level is completed and starts commissioning. However, cooler weather in the upcoming months is expected to moderate production and increase fibre drying costs, which is typical during the winter months. In addition, the spillover of the Fibreco incident impacted loading operations at the port in the early part of Q4 2020 which may continue through the balance of the quarter and possibly longer, with additional impacts on rail service and production. Pinnacle expects to increase its fibre inventories in the coming months as a hedge against seasonal factors and other potential disruptions in the supply of traditional feedstock. Pinnacle's order backlog remains strong at $6.7 billion.

With respect to the COVID-19 pandemic, on-going uncertainties including reports of higher positive test results in areas in which we operate, have the potential to impact our operations and the availability and cost of feedstock. Barring a deterioration in the business environment due to COVID-19 or other factors, the construction of the Company's growth-related projects will continue as planned.

FINANCIAL AND OPERATING HIGHLIGHTS

	Unit	Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Revenue	$000's	**131,674**	92,552	**373,594**	286,343
Profit before finance costs and other income (expense)	$000's	**15,409**	3,031	**16,064**	4,561
Net income (loss)[5]	$000's	**7,740**	(1,459)	**(1,377)**	(6,919)
Net profit (loss) attributable to owners	$000's	**6,946**	(1,695)	**(3,076)**	(7,146)
Basic and diluted earnings/(loss) per share	$/share	**0.21**	(0.05)	**(0.09)**	(0.21)
Adjusted Gross Margin [1][6]	$000's	**31,744**	17,851	**60,693**	48,563
Adjusted Gross Margin per MT [1][6]	$/MT	**52.91**	42.20	**35.08**	37.27
Adjusted Gross Margin Percentage [1][6]	%	**24.1%**	19.3%	**16.2%**	17.0%
Adjusted EBITDA [1][7]	$000's	**26,054**	13,553	**46,205**	35,891
Adjusted EBITDA per MT [1][7]	$/MT	**43.42**	32.04	**26.71**	27.54
Adjusted EBITDA Percentage [1][7]	%	**19.8%**	14.6%	**12.4%**	12.5%
Free Cash Flow [1][7]	$000's	**18,392**	7,310	**26,015**	18,410
Annualized Return on Invested Capital [1][7]	%	**19.6%**	11.3%	**11.5%**	10.1%
Annualized Cash Flow Return on Assets [1]	%	**16.7%**	9.8%	**12.4%**	10.3%

		September 25, 2020	December 27, 2019
Total Assets	$000's	**703,390**	629,911
Total Debt	$000's	**374,796**	316,014

		Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Operating Highlights					
Industrial wood pellets produced [2]	MT ('000)	**587**	422	**1,557**	1,299
Industrial wood pellets purchased [3]	MT ('000)	**15**	33	**121**	62
Industrial wood pellets sold	MT ('000)	**600**	423	**1,730**	1,303

		September 25, 2020	December 27, 2019
Contracted Backlog (4)			
Fiscal 2020 (remainder of Fiscal year)	$ billions	**0.1**	0.4
Fiscal 2021	$ billions	**0.6**	0.5
Fiscal 2022 and thereafter	$ billions	**6.0**	6.0
Total product sales under Contracted Backlog	$ billions	**6.7**	6.9

Notes

(1) See "Non-IFRS Measures" for definition of the items discussed below and as well as reconciliations of non-IFRS measure with the most directly comparable IFRS measures.

(2) Includes MT produced by all facilities managed by Pinnacle, including Houston Pellet LP ("HPLP").

(3) Includes MT sold the quarter that were purchased from third parties, excluding HPLP.

(4) We enter into long-term, take-or-pay-off-take contracts with large and well capitalized counterparties or their affiliates. "Contracted Backlog" represents the revenue to be recognized under existing contracts assuming deliveries occur as specified in the contracts. As a result of customer preferences or logistics management, there can be movement in the timing of deliveries that may result in revenue being recognized in either a preceding or following interim fiscal period.

(5) For the 13- week and 39-week period ended September 25, 2020, Net Income included $2.7 million and $4.5 million respectively of net insurance benefit related to the Entwistle Incident (13-week and 39-week periods ended September 27, 2019 - $1.5 million and ($0.6) million).

(6) For the 13- week and 39-week period ended September 25, 2020, Adjusted Gross Margin included $2.6 million and $3.1 million respectively of net insurance benefits related to the Entwistle Incident (13-week and 39-week periods ended September 27, 2019 - $2.0 million and $2.3 million). For the 13- week and 39-week period ended September 25, 2020 without the Entwistle Incident Adjusted Gross Margin per MT would have been $49.62 and $36.98 respectively (13-week and 39-week periods ended September 27, 2019 - $37.54 and $35.62). Adjusted Gross Margin Percentage would have been 22.1% and 15.4% respectively (13-week and 39-week periods ended September 27, 2019 - 17.1% and 16.2%).

(7) For the 13- week and 39-week period ended September 25, 2020, Adjusted EBITDA included $2.6 million of net insurance benefit (cost) related to the Entwistle Incident (13-week and 39-week periods ended September 27, 2019 – ($0.7) million). For the 13- week and 39-week period ended September 25, 2020 without the Entwistle Incident Adjusted EBITDA per MT would have been $39.06 and $25.23 respectively (13-week and 39-week periods ended September 27, 2019 - $33.72 and $23.77). Adjusted EBITDA Percentage would have been 17.8% and 11.7% respectively (13-week and 39-week periods ended September 27, 2019 - 15.4% and 12.3%).

RESULTS OF OPERATIONS

Summary of Third Quarter 2020 Financial Performance:

Revenue

Revenue for Q3 2020 totaled $131.7 million, an increase of $39.1 million, or 42.3%, compared to $92.6 million for Q3 2019. The increase is primarily attributable to increased sales volumes of 177k MT. Q3 2020 cost, insurance and freight ("CIF") sales were 22% higher than Q3 2019 and accounted for 58.6% of total sales in Q3 2020, compared to 68.2% in Q3 2019. Shipping costs are included in revenue as they are billed to customers under CIF term transactions.

Production

Production costs were $83.5 million for Q3 2020, an increase of $23.3 million, or 38.7% compared to $60.2 million for Q3 2019. The increase in production costs reflect higher sales volumes ($25.8 million increase related to higher sales volume), offset by $3.2 million in unit production cost savings in Q3 2020 compared to Q3 2019 from spreading out a greater proportion of fixed costs over higher production volumes. $2.6 million of business interruption insurance recoveries relating to the Entwistle Incident were booked as an offset to production costs in Q3 2020, compared to $4.0 million in Q3 2019.

Distribution

Distribution costs were $16.0 million for Q3 2020 an increase of $1.5 million, or 10.5% compared to $14.5 million for Q3 2019. The increase in distribution costs is the result of increased sales volume, partially offset by a reduction from a lower proportion of CIF contract sales and reduced costs as a higher proportion of shipments went through Pinnacle's wholly-owned port in Prince Rupert.

Selling, general and administration

SG&A expenses were $5.3 million for Q3 2020, an increase of $0.5 million, or 11.1% compared to $4.8 million for Q3 2019. The increase was driven by the overall growth of the Company, including increased staffing requirements, partially offset by a decrease in travel related expenses.

Amortization

Amortization expense was $11.5 million for Q3 2020, an increase of $1.4 million, or 13.8% compared to $10.1 million for Q3 2019 due to increased capital assets over this time.

Finance costs

Finance costs relate primarily to the interest paid on the Company's debt facilities and gains and losses on foreign exchange and derivative contracts. Total finance costs were $6.0 million in Q3 2020 compared to $4.8 million in Q3 2019. The increase in finance costs is primarily related to a fair value loss of $0.9 million in Q3 2020 compared to a fair value gain of $0.3 million in Q3 2019. The fair value loss in Q3 2020 is related to US foreign exchange forward contracts and the strengthening of the Canadian dollar compared to the US dollar.

Other income/expense

Other income was $1.2 million for Q3 2020 compared to other expense of $(0.1) million in Q3 2019. The increase in other income is primarily related to $1.1 million recorded for insurance recoveries for property loss at our Entwistle facility ($nil in Q3 2019)

Summary of Year-to-Date 2020 Financial Performance:

Revenue

Revenue for YTD 2020 totaled $373.6 million, an increase of $87.3 million, or 30.5%, compared to $286.3 million for the same period in Q3 2019 ("YTD 2019"). The increase is primarily attributable to higher sales volumes (427 k MT, $91.2 million). Shipping delays due to the CN Rail strike in Q4 2019 resulted in a shift of revenue into Q1 2020 as over 30% of the pellets shipped during Q1 2020 were produced in 2019. Strong production volumes in Q3 2020 further contributed to strong sales volumes. YTD 2020 CIF sales were 21.3% higher than YTD 2019 and accounted for 50.7% of total sales in YTD 2020, compared to 55.6% of total sales in YTD 2019. The reduction in the percentage of CIF sales against total sales in YTD 2020 reduced revenue per MT despite increases in contract prices. Shipping costs are included in revenue as they are billed to customers under CIF term transactions.

Production

Production costs were $265.5 million for YTD 2020, an increase of $67.3 million, or 34.0% compared to $198.2 million for YTD 2019. The increase in production costs reflect higher sales volume as well as the high cost of Q4 inventory sold in Q1 2020. This inventory included high fibre costs consumed in Q4 2019 as well as the costs associated with the CN Rail disruptions in Q4 2019. This was partially offset by $5.9 million in unit production cost savings in YTD 2020 compared to YTD 2019 from spreading out a greater proportion of fixed costs over higher production volumes in the year. $3.6 million in YTD 2020 is included in production costs relating to insurance proceeds received and recorded for business interruption relating to the Entwistle Incident ($8.5 million in YTD 2019).

Distribution

Distribution costs were $45.5 million for YTD 2020 an increase of $5.2 million, or 13.0% compared to $40.2 million for YTD 2019. The increase in distribution costs is primarily the result of increased sales volume in YTD 2020 compared to YTD 2019.

Selling, general and administration

SG&A expenses were $14.5 million for YTD 2020, an increase of $0.8 million, or 5.5% compared to $13.7 million for YTD 2019. The increase was driven by the overall growth of the Company, including increased staffing requirements, and increased professional fees. This was partially offset by a decrease in travel related expenses.

Amortization

Amortization expense was $32.0 million for YTD 2020, an increase of $2.4 million, or 8.3% compared to $29.6 million for YTD 2019. The increase was primarily attributable to the amortization of planned additions to property, plant and equipment.

Finance costs

Finance costs relate primarily to the interest paid on the company's debt facilities and gain or losses on foreign exchange and derivative contracts. The increase in finance costs were primarily driven by the increase in the fair value loss on interest rate swaps ($5.8 million YTD 2020 compared to $3.2 million YTD 2019) due to a significant decline in interest rates as a result of COVID-19, partially offset by a $1.8 million gain on US foreign exchange forward contracts settled compared to $1.5 million in YTD 2019.

Other income

Other income was $2.7 million for YTD 2020 compared to other income of $5.8 million in YTD 2019. The reduction in other income is primarily driven by the fact that YTD 2019 includes $6.5 million of proceeds from the settlement of a legal claim against a former equipment supplier in 2019 ($nil in YTD 2020), $8.0 million of proceeds for insurance recoveries for property loss in respect of our Entwistle facility ($3.6 million in YTD 2020), equity earnings from HPLP of $0.9 million ($0.2 million equity loss in YTD 2020) as well as a loss on disposal of property plant and equipment of $0.3 million ($0.7 million in YTD 2020). This was offset by a $9.4 million impairment in respect of the Entwistle facility in YTD 2019 ($nil in YTD 2020).

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS AND CERTAIN PERFORMANCE MEASURES

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

	2020 [4][8]			2019[4][7]				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks
Financial Highlights [1]								
(in thousands except per share amounts or expressed)								
Revenue	131,674	132,246	109,675	91,465	92,552	104,164	89,627	103,728
Costs and expenses								
Production [2]	83,500	95,888	86,129	60,334	60,189	70,903	67,121	73,472
Distribution	15,970	14,930	14,561	13,793	14,457	13,005	12,766	13,371
Selling, general and administration	5,342	4,511	4,657	4,747	4,808	5,147	3,793	3,933
Amortization	11,453	9,793	10,794	10,404	10,067	9,924	9,602	7,324
	116,265	125,122	116,141	89,278	89,521	98,979	93,282	98,100
Profit (loss) before finance costs and other (income) expenses	15,409	7,124	(6,466)	2,187	3,031	5,185	(3,655)	5,628
Finance (cost) income	(5,965)	(6,247)	(8,346)	(4,839)	(4,813)	(7,753)	(6,773)	1,828
Other income (expense) [3]	1,200	(888)	2,395	(649)	(71)	4,991	880	1,626
	(4,764)	(7,135)	(5,951)	(5,488)	(4,884)	(2,762)	(5,893)	3,454
Net profit (loss) before income taxes	**10,645**	**(11)**	**(12,417)**	**(3,301)**	**(1,853)**	**2,423**	**(9,548)**	**9,082**
Income tax (expense) recovery								
Deferred income taxes	(2,905)	28	3,285	246	394	(877)	2,542	(1,643)
Net profit (loss) attributable to:	**7,740**	**17**	**(9,132)**	**(3,055)**	**(1,459)**	**1,546**	**(7,006)**	**7,439**
Owners of the Company	6,946	(1,187)	(8,835)	(3,661)	(1,695)	1,241	(6,692)	7,095
Non-controlling interests	794	1,204	(297)	606	236	305	(314)	344
Net profit (loss)	**7,740**	**17**	**(9,132)**	**(3,055)**	**(1,459)**	**1,546**	**(7,006)**	**7,439**
Annualized Return on Invested Capital [9]	19.6%	12.2%	3.1%	8.9%	11.3%	14.0%	6.5%	13.6%
Annualized Cash Flow Return on Assets [9]	16.7%	13.6%	6.6%	1.1%	9.8%	7.5%	13.1%	9.6%
Net profit (loss) per share attributable to owners Basic and diluted	**0.21**	**(0.04)**	**(0.26)**	**(0.12)**	**(0.05)**	**0.04**	**(0.20)**	**0.22**
Operating Highlights								
(in thousands MT)								
Industrial wood pellets produced [5]	587	518	407	422	422	451	407	441
Industrial wood pellets purchased [6]	15	71	35	17	33	14	15	19
Industrial wood pellets sold	600	620	510	419	423	478	402	473

Notes

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

(2) In Q1 2020, $1.1 million of costs related to fixed overhead and incident response costs were reflected in production costs, $1.1 million, $1.4 million, $2.7 million and $2.1 million were reflected in Q4, Q3, Q2 and Q1 2019, respectively. Business interruption insurance was also reflected in production costs, $2.6 million in Q3 2020, $1.0 million in Q1 2020, $4.5 million in Q4 2019, $4.0 million in Q3 2019, and $4.5 million in Q2 2019.

(3) In Q1 2019, $9.4 million of asset impairment costs and $3.0 million of insurance recoveries were recognized in relation to the Entwistle Incident (refer to "Other Significant Events" in the AIF for details). An additional $9.5 million of insurance recoveries were recognized in Q2 2019, $4.0 million was recognized in Q3 2019, $5.5 million was recognized in Q4 2019, $2.5 million in Q1 2020 and $1.1 million in Q3 2020.

(4) 2019 and 2020 results include the adoption of IFRS 16 Leases, from December 30, 2018, on a prospective basis. Comparative periods for 2018 have not been restated.

(5) Includes MT produced by all facilities managed by Pinnacle, including HPLP.

(6) Includes MTs purchased from third parties, excluding HPLP for eventual resale.

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

(8) The timing of remaining costs relating to the Entwistle restart, recognition of final insurance recoveries, and receipt of cash will not match, which resulted in fluctuations in other income, cost of goods sold, and net income from period to period. Given the likely timing mismatch, our results of operations and cash flows in the first three quarters of 2020, as well as our non-IFRS financial measures, may not be comparable to those for previously reported periods in 2019.

(9) See "Non-IFRS Measures" for definition of the items discussed below and as well as reconciliations of non-IFRS measure with the most directly comparable IFRS measures.

LIQUIDITY

Pinnacle's net debt (current and long term debt, current and long term lease liabilities, offset by cash and cash equivalents) at September 25, 2020 was $389.4 million representing an increase of $47.7 million since December 27, 2019. Net debt includes $89.7 million of indebtedness relating to capital expenditures on growth-related projects not yet commissioned.

As at September 25, 2020, the Company had working capital of $25.1 million and available liquidity of $169.6 million, based on the full borrowing capacity of $528.6 million under the Senior Credit Facilities (as defined below).

The primary debt covenants in the Senior Credit Facilities are Senior Debt to Adjusted EBITDA and the Fixed Charge Coverage Ratio (as those terms are defined in the Senior Credit Facilities). Adjusted EBITDA as defined in our credit agreement is different than Adjusted EBITDA as presented in our MD&A as it includes adjustments to reflect run-rate EBITDA at facilities in the construction and commissioning phase. The Senior Credit Facilities provide for calculation of the debt covenants prior to the application of IFRS 16. As at September 25, 2020 and December 27, 2019, the Company was in compliance with all debt covenants.

Analysis of cash flows

(In thousands $)	**Q3 2020 13 weeks**	**Q3 2019 13 weeks**	**Q3 2020 39 weeks**	**Q3 2019 39 weeks**
Cash flow from operations before net change in non-cash working capital	**24,412**	14,965	**56,284**	43,093
Net change in non-cash operating working capital	**(18,453)**	(6,216)	**(2,373)**	(19,014)
Financing activities	**15,669**	812	**44,666**	(5,654)
Investing activities	**(19,797)**	(11,043)	**(88,138)**	(28,193)
Other	**86**	(10)	**56**	75
Change in cash	**1,917**	(1,492)	**10,495**	(9,693)
Cash and cash equivalents, beginning of year	**19,845**	9,827	**11,267**	18,028
Cash and cash equivalents, end of year	**21,762**	8,335	**21,762**	8,335

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

Cash flow from operations before net change in non-cash working capital was $24.4 million for Q3 2020, an increase of $9.4 million compared to $15.0 million for Q3 2019. This increase is primarily due the incremental margin earned on an increase in sales volume in the quarter.

Net change in non-cash operating working capital

The net change in non-cash operating working capital during Q3 2020 was a decrease of $18.5 million, a decrease of $12.2 million compared to a $6.2 million decrease in non-cash operating working capital during Q3 2019. The decrease from non-cash operating working capital, was primarily due to a $20.6 million increase in trade accounts receivable compared to Q3 2019 related to the timing of payments received on sales, partially offset by a decrease of $9.2 million for inventory primarily related to lower finished goods inventory held at the end of Q3 2020 compared to Q3 2019. The net change in non-cash operating working capital during YTD 2020 was $2.4 million, an increase of $16.6 million from YTD 2019. This increase is primarily due to a $27.8 million dollar increase in trade accounts receivable in YTD 2020 compared to YTD 2019 related to the timing of payments received on sales. This was partially offset by a $20.7 million decrease in inventory primarily related to lower finished goods inventory held at the end of YTD 2020 compared to YTD 2019.

Financing activities

The $14.9 million increase in cash generated from financing activities in Q3 2020 compared to Q3 2019 was primarily due to drawings on the delayed draw loan of $19.9 million and increase in the investment from non-controlling interest of $6.1 million. The $50.4 million increase in cash generated from financing activities for YTD 2020 compared to YTD 2019 is largely due to the increase in the drawings on the delayed draw loan as well as in increase in the investment from non-controlling interest of $12.4 million. Both periods increase are driven by the ongoing growth capital projects of Demopolis and NPLP.

Investing activities

The increase in cash used for investing activities is due to cash outflows relating to the planned purchases of property, plant and equipment.

CAPITAL RESOURCES

The following table summarizes the Company's credit facilities (the "Senior Credit Facilities") and availability as of September 25, 2020:

	Revolver Loan	Term Loan	Delayed Draw Loan	Total
Available line of credit and maximum borrowing available	65,000	280,000	185,000	530,000
Mandatory Amortization	-	4,200	-	4,200
Drawings	-	280,000	102,200	382,200
Unused portion of facility	65,000	-	82,800	147,800
Add:				
Cash and cash equivalents	-	-	-	21,762
Available liquidity at September 25, 2020	65,000	-	82,800	169,562

The revolver loan, term loan and delayed draw loan each have a maturity date of June 14, 2024.

The Senior Credit Facilities are secured by a first-ranking security interest on all present and after-acquired assets of the Company. All the credit facilities require mandatory loan prepayments of principal and interest if certain events occur. Refer to the "Credit Agreement" sub-section under the "Material Contracts" section in the AIF for details of our credit facilities as well as Note 5 of our interim condensed consolidated financial statements for Q3 2020.

Pinnacle currently has sufficient liquidity and is within its financial covenants with its lending syndicate.

TRANSACTIONS WITH RELATED PARTIES

The Company consolidates three entities in which it has less than 100% interest, equity accounts for one affiliate and proportionally consolidates one entity. The Company purchases pellets produced by all of these entities and often transacts with the other owners for fibre and other costs. These transactions are negotiated on an arm's length basis with the non-related third-party owners.

Any amounts receivable or payable to us under these arrangements are settled under normal trade terms and are unsecured and non-interest bearing.

CONTRACTUAL OBLIGATIONS

The obligations under the senior credit facilities are discussed in the "Liquidity and Capital Resources" section of this MD&A.

As at September 25, 2020	Carrying Amount	Contractual cash flows[2]	Current	Between 2 and 5 years	More than 5 years
Accounts payable and accrued liabilities	69,610	69,610	69,610	-	-
Term Loan	275,800	275,800	14,000	261,800	-
Delayed draw loan	102,200	102,200	4,530	97,670	-
Lease liabilities	36,318	45,680	9,832	21,074	14,774

[2] Contractual cash flows exclude interest payments on loan facilities.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Foreign currency

While the Company's functional and reporting currency is the Canadian dollar, we have revenue and cost exposures in other currencies; principally the US dollar. The Company manages its aggregate foreign currency exposure on a net basis through the use of foreign exchange contracts with highly rated bank counterparties. The Company has not adopted hedge accounting and accordingly non-cash mark to market gains or losses on such contracts arising from currency fluctuations are recorded in income. Refer to Note 12 to the interim condensed consolidated financial statements for outstanding notional amounts of the US dollar forward contracts and their contractual maturities.

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

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

Interest rate

We are exposed to interest rate risk through the Senior Credit Facilities, including our revolver, term loan and delayed draw term loan which are subject to variable interest rates. On June 28, 2019, in order to mitigate this variable interest rate risk, we entered into two $50.0 million interest rate swaps totaling $100.0 million which have the effect of fixing the interest rate until March 31, 2024. We report this cost in our finance charges and we record the non-cash mark to market gain or loss on the swap contracts in income.

SHARE CAPITAL

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

Current Share Information

As of November 9, 2020, we had 33,359,570 common shares issued and outstanding and no preferred shares issued and outstanding. As of November 9, 2020, an aggregate of 2,096,012 options to acquire common shares are outstanding and 142,368 restricted share units entitling the holder to receive common shares are outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR") – Material Weakness

Pinnacle's management, including the CEO and CFO, is responsible for establishing and maintaining adequate ICFR. ICFR is a process designed by, or under the supervision of, the CEO and CFO and effected by management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose the existence of any material weakness that exists in the design or operation of its ICFR in its MD&A for each reporting period. A material weakness is a deficiency, or combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected on a timely basis.

When the Company originally filed its interim condensed consolidated financial statements and related MD&A for the thirteen weeks ended March 27, 2020 (in May 2020), it was unaware that an error had been made for the period recording two interest rate swaps in the preparation of the statements and, accordingly, of the existence of a material weakness in its ICFR. The impact of the interest rate swap accounting error on the Company's interim consolidated condensed financial statements for Q1 2020 was quantitatively material and the statements were restated accordingly.

In June 2020, management determined that the foregoing restatement reflected the existence of a material weakness in the Company's ICFR involving derivatives and complex accounting transactions for the period ended March 27, 2020. Internal controls over accounting for interest rate swaps did not sufficiently assess the accuracy and reasonability of interest rate swap fair value journal entries or include adequate review by management personnel with the necessary expertise required to detect the foregoing error.

In Q2 2020, the Company implemented procedures aimed at remediating this weakness by redesigning internal controls over derivatives and complex accounting matters. Senior personnel with the necessary technical expertise are required to perform management review and approval of derivative and complex accounting transactions. Pinnacle will continue reviewing the design and operating effectiveness of the Company's ICFR with independent experts to improve its control environment. Although, the Company believes it has improved its internal controls to remediate the material weakness identified, the material weakness will continue to exist until the Company is able to test the internal controls over a period of time to determine that they are operating effectively. Annual ICFR review and testing commenced in Q3 2020 and will be completed for year-end.

Limitations of Controls and Procedures

Pinnacle's management, including the CEO and CFO, believe that disclosure controls and procedures and internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. 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. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed.

Changes in ICFR

Other than the material weakness identified and related changes to internal controls as discussed above relating to controls over complex accounting including derivatives, there have been no changes to ICFR in the 13-week and 39-week periods ended September 25, 2020.

RISK AND UNCERTAINTIES

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: availability and cost of fibre supply; contracted backlog risk, natural or man-made disasters; foreign currency exchange fluctuations; government regulation; environmental matters; labour disruptions; competition; and information systems security. We are exposed to a number of risks as a result of holding financial instruments including credit risk, liquidity risk and market risk. We also have interest rate risk. Our Risk Management Committee manages risk related to counterparty credit risk and market risk such as foreign exchange. These risks and uncertainties are described in the Company's MD&A and AIF for the year ended December 27, 2019, filed under the Company's profile on www.sedar.com.

In Q1 2020, the Company identified a previously undisclosed risk of the existence of a public health crisis (such as the current global COVID-19 pandemic). The future emergence and spread of pathogens similar to COVID-19 could have an adverse impact on global economic conditions. In turn, such a public health crisis could have adverse consequences on Pinnacle's operations, financial results and liquidity. Areas of potential impact include the health and safety of its employees and contractors, product demand and pricing, availability of sawmill and harvest residuals, operating supplies, availability of logistics and increased cyber-security risk. Given the ongoing and dynamic nature of the COVID-19 outbreak, it is difficult to accurately predict the severity of its impact on the Company. The extent of such impact will depend upon future developments, which are highly uncertain, including the rate of spread and severity of COVID-19 and government actions taken to mitigate its impact, among others.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

Critical Accounting Estimates and Judgments

The most significant accounting judgments and estimates that we have made in the preparation of our financial statements are described in note 2(d) to our audited consolidated financial statements for the year ended December 27, 2019.

Recently Adopted Significant Accounting Standards

No new significant accounting standards were adopted in Q3 2020.

NON-IFRS MEASURES

This MD&A makes reference to certain non-IFRS measures. These measures are not recognised measures under IFRS, and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. 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.

The following measures are used by management as key performance indicators for our business: Adjusted Gross Margin Percentage, Adjusted EBITDA, Free Cash Flow, Annualized Return on Invested Capital and Annualized Cash Flow Return on Assets.

Adjusted Gross Margin Percentage

(in thousands $ except per MT amounts)	Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Operating profit/(loss)	**15,409**	3,031	**16,064**	4,561
Selling, general and administration	**5,342**	4,808	**14,511**	13,748
Amortization	**11,453**	10,067	**32,040**	29,593
Equity earnings in HPLP	**334**	181	**(223)**	888
Non-controlling interests	**(794)**	(236)	**(1,699)**	(227)
Adjusted Gross Margin[(7)]	**31,744**	17,851	**60,693**	48,563
Adjusted Gross Margin per MT[(7)]	**52.91**	42.20	**35.08**	37.27
Adjusted Gross Margin Percentage[(7)]	**24.1%**	19.3%	**16.2%**	17.0%

Adjusted EBITDA

(in thousands $ except per MT amounts)	Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Net Profit/(Loss)	**7,740**	(1,459)	**(1,377)**	(6,919)
Income tax expense (recovery)	**2,905**	(394)	**(409)**	(2,059)
Finance costs	**5,965**	4,813	**20,558**	19,339
Amortization of equipment and intangible assets	**11,453**	10,067	**32,040**	29,593
EBITDA	**28,062**	13,027	**50,812**	39,954
EBITDA Adjustments				
Stock-based compensation expense	**173**	255	**404**	884
Loss on disposal and impairment of PP&E [(1)]	**(149)**	188	**727**	9,980
Insurance recovery on Entwistle Incident	**(1,143)**	-	**(3,643)**	(8,000)
Gain on legal settlement [(2)]	**-**	-	**-**	(6,461)
Other Items [(2)]	**(890)**	83	**(2,094)**	(466)
Total Adjustments	**(2,009)**	526	**(4,606)**	(4,063)
Adjusted EBITDA[(8)]	**26,054**	13,553	**46,205**	35,891
Adjusted EBITDA per MT[(8)]	**43.42**	32.04	**26.71**	27.54

Free Cash Flow

(in thousands $ except per MT amounts)	Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Adjusted EBITDA (8)	**26,054**	13,553	**46,205**	35,891
Maintenance CAPEX (3)	**(2,281)**	(2,018)	**(5,034)**	(3,087)
Interest and finance costs, net	**(3,980)**	(4,225)	**(12,356)**	(12,394)
Mandatory amortization (4)	**(1,400)**	-	**(2,800)**	(2,000)
Free Cash Flow	**18,392**	7,310	**26,015**	18,410

Annualized Return on Invested Capital

(in thousands $ except annualization factor and %)	Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Adjusted EBITDA(8)	**26,054**	13,553	**46,205**	35,891
Invested Capital - Beginning of Period(5)	**522,449**	441,901	**529,458**	429,747
Invested Capital - End of Period(5)	**542,967**	520,183	**542,967**	520,183
Average Invested Capital	**532,708**	481,042	**536,212**	474,965
Adjusted EBITDA divided by average invested Capital(8)	**4.9%**	2.8%	**8.6%**	7.6%
Annualization Factor	**4.00**	4.00	**1.33**	1.33
Annualized Return on Invested Capital	**19.6%**	11.3%	**11.5%**	10.1%

Annualized Cash Flow Return on Assets

(in thousands $ except annualization factor and %)	Q3 2020 13 weeks	Q3 2019 13 weeks	Q3 2020 39 weeks	Q3 2019 39 weeks
Long term assets	**579,894**	492,265	**579,894**	492,265
Non-interest-bearing working capital(6)	**28,281**	38,600	**28,281**	38,600
Total applicable assets	**608,175**	530,865	**608,175**	530,865
Average applicable assets during the period	**594,444**	528,348	**580,538**	504,172
Cash flow from operations less maintenance capital expenditure	**24,750**	12,947	**53,871**	38,891
Cash flow from Operations divided by average assets	**4.2%**	2.5%	**9.3%**	7.7%
Annualization Factor	**4.00**	4.00	**1.33**	1.33
Annualized Cash Flow Return on Assets	**16.7%**	9.8%	**12.4%**	10.3%

Notes

(1) Loss on disposal and impairment of PP&E includes our share of HPLP and excludes the non-controlling interests' share of Lavington Pellet LP ("LPLP"), Smithers Pellet LP ("SPLP") and Pinnacle Westervelt Renewable Holdings, LLC ("PWRHLLC").

(2) Other items include professional fees incurred in connection with the IPO in Q1 2018, legal fees related to pursuing a damage claim, deduction for the non-controlling interests' share of LPLP, SPLP and PWRHLLC, realized (gain) loss on derivatives and foreign exchange, includes our share of amortization of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and PWRHLLC.

(3) "Maintenance capital expenditures" refers to cash expenditures to maintain long-term operating capacity or net income. Annual maintenance capital expenditure allows for the maintenance of long-term operating capacity or net income. We anticipate the recently commissioned Entwistle Mill and the High Level Mill and Demopolis Mill to require $5.2 million in annual maintenance capital expenditures.

(4) Mandatory amortization was incurred in Q3 2020 and YTD 2020 as well as YTD 2019. Debt refinancing was completed in June 2019 and mandatory amortization has been deferred. There were no mandatory amortization payments made in Q4 2019 due to the debt refinancing completed in June 2019. Refer to the section entitled "Material Contracts – Credit Agreement" in the AIF for details of our credit facilities.

(5) Invested capital is defined as net debt plus total equity less non-controlling interest.

(6) Non-interest bearing working capital excludes cash and cash equivalents, restricted cash, the current portion of long term debt, and the current portion of lease liabilities.

(7) For the 13-week and 39-week period ended September 25, 2020, Adjusted Gross Margin included $2.6 million and $3.1 million respectively of net insurance benefits related to the Entwistle Incident (13-week and 39-week periods ended September 27, 2019 - $2.0 million and $2.3 million). For the 13-week and 39-week period ended September 25, 2020 without the Entwistle Incident Adjusted Gross Margin per MT would have been $49.62 and $36.98 respectively (13-week and 39-week periods ended September 27, 2019 - $37.54 and $35.62). Adjusted Gross Margin Percentage would have been 22.1% and 15.4% respectively (13-week and 39-week periods ended September 27, 2019 - 17.1% and 16.2%).

(8) For the 13- week and 39-week period ended September 25, 2020, Adjusted EBITDA included $2.6 million of net insurance benefit (cost) related to the Entwistle Incident (13-week and 39-week periods ended September 27, 2019 – ($0.7) million). For the 13- week and 39-week period ended September 25, 2020 without the Entwistle Incident Adjusted EBITDA per MT would have been $39.06 and $25.23 respectively (13-week and 39-week periods ended September 27, 2019 - $33.72 and $23.77). Adjusted EBITDA Percentage would have been 17.8% and 11.7% respectively (13-week and 39-week periods ended September 27, 2019 - 15.4% and 12.3%).

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