Fourth Quarter Report

For the thirteen and fifty-two weeks ended December 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 February 24, 2021 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 52-week periods ended December 25, 2020 ("Q4 2020" and "YTD 2020"). This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for Fiscal 2020 (the "Consolidated Financial Statements"), and accompanying notes for the 52 - week period ended December 25, 2020 ("Fiscal 2020"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and our annual MD&A for Fiscal 2020. 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 February 24, 2021, which is the date of filing in conjunction with our press release announcing our results for Q4 2020. Disclosure contained in this document is current to February 24, 2021, 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 FOURTH QUARTER, 2020

Revenue in Q4 2020 was $116.9 million, $25.4 million or 27.8% higher than Q4 2019 revenue of $91.5 million; the net loss was $2.5 million in Q4 2020 versus $3.1 million in Q4 2019.

The net loss for Q4 2020 includes $0.1 million for expenses related to the proposed acquisition of Pinnacle by Drax Group PLC (LSE:DRX) (“Drax”) and $0.2 million of net insurance benefits compared with $3.0 million in Q4 2019. Excluding these expenses and benefits, the net loss would have been $2.6 million in Q4 2020 compared with $6.1 million in Q4 2019.

Adjusted Gross Margin [(1)](“AGM”) in Q4 2020 was $19.8 million or 17.0% of revenue compared to $16.4 million or 17.9% of revenue in Q4 2019. Adjusted EBITDA[(1)] was $15.4 million, or 13.2% of revenue compared to $11.3 million or 12.3% of revenue in Q4 2019. Excluding the insurance benefits reported above, AGM in Q4 2020 would have been $19.5 million compared to $13.0 million in Q4 2019 and Adjusted EBITDA would have been $14.9 million and $8.1 million in Q4 2020 and Q4 2019 respectively.

Capital expenditures net of non-controlling interests totaled $32.1 million in Q4 2020, including $28.1 million on growth-related projects, compared with $12.9 million in the same quarter last year.

Net debt at the end of the quarter was $411.2 million resulting in available liquidity of $153.3 million. Net debt includes $84.7 million associated with growth-related projects still under construction, as well as $34.7 million associated with the recently completed High Level mill.

SUMMARY OF FISCAL 2020 FINANCIAL PERFORMANCE

Revenue for Fiscal 2020 totaled $490.5 million; $112.7 million or 29.8% higher than Fiscal 2019 revenue of $377.8 million; the net loss in Fiscal 2020 was $3.9 million compared to a net loss of $10.0 million in Fiscal 2019.

The net loss for Fiscal 2020 includes $0.2 million for expenses related to the proposed acquisition of Pinnacle by Drax and $4.8 million of net insurance benefits compared with $2.5 million in Fiscal 2019. Excluding these expenses and benefits, the net loss would have been $8.5 million in Fiscal 2020 versus $12.5 million in Fiscal 2019.

The Company’s AGM for Fiscal 2020 was $80.5 million or 16.4% of revenue compared to $65.0 million or 17.2% of revenue in Fiscal 2019. Adjusted EBITDA for Fiscal 2020 was $61.6 million versus $47.2 million in Fiscal 2019. Excluding the insurance benefits

[1] Please see page 14 for references related to non-IFRS measures.

reported above, AGM would have been $77.1 million in Fiscal 2020 versus $59.3 million in Fiscal 2019 and Adjusted EBITDA would have been $58.6 million in Fiscal 2020 compared with $43.3 million in Fiscal 2019.

Capital expenditures net of non-controlling interests totaled $109.3 million in Fiscal 2020, including $100.3 million on growth-related projects, compared with $53.8 million in Fiscal 2019.

FACTORS IMPACTING FOURTH QUARTER, 2020

Production in Q4 2020 was 489,000 MT, 11% higher than the same quarter last year but 17% below Q3 2020. Shipments totaled 526,000 MT, 24% more than Q4 2019 but 12% below the prior quarter. A total of 39,000 MT of third-party pellets were purchased in Q4 2020 compared with 16,000 MT in Q4 2019 and 15,000 MT in Q3 2020.

Houston Incident and Other Issues Impact Production Volumes

- Production at the Houston plant was suspended on November 25th as a result of a fire-related incident in the dryer area of that mill. Production resumed on December 10th on a reduced basis. A plan to repair the dryer and the other equipment damaged in the incident at a cost of $5.5 to $6.0 million has been developed and will be covered by the Company's insurance policies, subject to standard deductibles. The production impact at Houston during the quarter has been estimated at 16,000 MT.
- Operating and reliability issues at the Company's Aliceville plant resulted in the loss of 20,000 MT during Q4. There were several unplanned shuts related to mechanical and electrical failures and to the reinforcement of safety standards.
- Operating disruptions at the Lavington and Armstrong plants in the B.C. Interior stemming from congestion at the Fibreco terminal in North Vancouver resulted in the loss of approximately 5,000 MT of production during Q4 2020. The impact on service levels at the terminal as a result of the Fibreco grain silo collapse in October has been more extensive and will take longer to resolve than initially expected. In addition to the impact on production, Pinnacle incurred approximately $0.5 million in additional inland transportation costs and demurrage associated with the Fibreco matter in Q4 2020.
- Approximately 9,000 MT of production was lost in Q4 2020 due to CN service disruptions unrelated to the Fibreco matter.

Lower Production and Inclement Weather Impact Shipments

- The combination of lower production volumes and inclement weather in both B.C. and Alabama, which impacted the pace of ship loading, had a negative impact of shipment volumes and revenues during the quarter.

Reduced Supply of Sawmill Residuals Impacts Fibre Costs

- Sawmill residuals dropped from 84% of the Company's feedstock in Q3 2020 to 77% in Q4 2020 due to reduced sawmill operating rates in the last two weeks of the quarter and a decision by the Company to utilize a higher level of fibre inventory as feedstock during the quarter. Overall, fibre costs were up 3% quarter-over-quarter.

Commencement of Production at High Level

- A total of 8,000 MT of pellets were produced at the newly commissioned plant at High Level, Alberta in the quarter. While production levels were ahead of the Company's commissioning plan, the Company's Adjusted EBITDA was negatively impacted by $0.7 million in Q4 2020 as operating costs at the plant were amortized over a relatively small volume of production.

PROGRESS ON GROWTH-RELATED CAPITAL PROJECTS

High Level Construction Completed

- As indicated above, construction of the new 200,000 MT mill at High Level, Alberta was completed during Q4 2020. The new mill is 50% owned by Pinnacle and 50% owned by Tolko Industries Inc. ("Tolko").
- Pinnacle contributed $10.1 million to the project in Q4 2020, bringing the Company's total expenditures to $33.9 million or approximately 99% of its share of estimated total project costs.

Demopolis Construction Proceeding as Planned

- Construction continued during the quarter on the 360,000 MT per year mill in Demopolis, Alabama, in which Pinnacle has a 70% interest.
- Initial production at Demopolis is expected in the second quarter of 2021.
- Additional costs incurred to advance the electrical scope of the project and the barge loading area will add an additional $4.5 million to the cost of the project, bringing the total capital investment at Demopolis to $133.2 million (Pinnacle's share $93.2 million).
- Pinnacle contributed $15.7 million to the project in Q4 2020, bringing expenditures to-date to $55.9 million or approximately 60% of budgeted costs.

Other Growth Capital Projects

- The Phase 2 Project at Aliceville, Alabama was completed in early October. This project added a truck unloading system to the mill's infrastructure, broadening access to sawmill residuals in the region and supporting the Company's goal of boosting production volumes at the mill.
- The Meadowbank WESP upgrade was completed during the quarter. The upgrade will enhance the operating flexibility of the facility and allow Pinnacle to continue to adapt to structural changes in fibre supply in the B.C. Interior. The upgrade is expected to increase the mill's production capacity by 40,000 MT per year.

ARRANGEMENT AGREEMENT

- On February 8, 2021, the Company announced that it has entered into an arrangement agreement with Drax to acquire all of the issued and outstanding common shares of Pinnacle. The Company's shareholders are entitled to receive $11.30 per share in cash with all future dividends suspended starting in the first quarter of 2021. The transaction is anticipated to close in the second or third quarter of 2021 and is subject to approval by two-thirds of the votes cast by holders at a special meeting of the Company's shareholders, approval by a majority of the votes cast by holders of Drax shares at a meeting of Drax shareholders, and other governmental and regulatory approvals.

OUTLOOK

- The demand for wood pellets remains strong. Year-over-year production increases are expected as the Entwistle plant operates at full capacity, benefits are realized from the upgrades at Williams Lake, Meadowbank, and Aliceville and High Level continues its commissioning process.
- Cold weather is expected to impact production at the Company's Canadian mills and increase drying costs, which is typical in the winter months. In addition, the Fibreco grain silo incident will continue to impact loading operations at the port throughout Q1 2021 and possibly longer, with additional impacts on rail service and production.
- Pinnacle's order backlog remains strong at $6.7 billion.
- On-going uncertainties associated with the COVID-19 pandemic including reports of higher positive test results in areas where the Company operates, have the potential to impact operations and the availability and cost of feedstock for the mills. 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	Q4 2020 13 weeks	Q4 2019 13 weeks	Q4 2020 52 weeks	Q4 2019 52 weeks
Revenue	$000's	**116,911**	91,465	**490,505**	377,808
Income before finance costs and other income	$000's	**3,070**	2,187	**19,137**	6,748
Net loss (1)	$000's	**(2,497)**	(3,055)	**(3,876)**	(9,974)
Net loss attributable to owners	$000's	**(1,965)**	(3,661)	**(5,041)**	(10,807)
Basic and diluted loss per share	$/share	**(0.06)**	(0.09)	**(0.15)**	(0.30)
Adjusted Gross Margin (2)(3)	$000's	**19,826**	16,417	**80,521**	64,980
Adjusted Gross Margin per MT (2)(3)	$/MT	**37.69**	38.54	**35.60**	37.34
Adjusted Gross Margin Percentage (2)(3)	%	**17.0%**	17.9%	**16.4%**	17.2%
Adjusted EBITDA (4)(2)	$000's	**15,441**	11,282	**61,646**	47,173
Adjusted EBITDA per MT (4)(2)	$/MT	**29.35**	26.48	**27.25**	27.11
Adjusted EBITDA Percentage (4)(2)	%	**13.2%**	12.3%	**12.6%**	12.5%
Free Cash Flow (2)	$000's	**6,117**	2,951	**30,837**	17,170
Annualized Return on Invested Capital (2)	%	**11.2%**	8.8%	**11.6%**	10.1%
Annualized Cash Flow Return on Assets (2)	%	**11.5%**	10.6%	**11.0%**	9.9%

		December 25, 2020	December 27, 2019
Total assets	$000's	**766,922**	629,391
Total debt	$000's	**379,770**	316,014

Operating Highlights		Q4 2020 13 weeks	Q4 2019 13 weeks	Q4 2020 52 weeks	Q4 2019 52 weeks
Industrial wood pellets produced (5)	MT ('000)	**489**	442	**2,046**	1,741
Industrial wood pellets purchased (6)	MT ('000)	**39**	16	**160**	91
Industrial wood pellets sold	MT ('000)	**526**	426	**2,262**	1,740

Contracted Backlog (7)		December 25, 2020	December 27, 2019
Fiscal 2021	$ billions	**0.6**	0.4
Fiscal 2022	$ billions	**0.7**	0.5
Fiscal 2023 and thereafter	$ billions	**5.4**	6.0
Total product sales under Contracted Backlog	$ billions	**6.7**	6.9

Notes

(1) For the 13-week and 52-week period ended December 25, 2020, net loss included $nil million and $4.5 million respectively of net insurance recoverable related to the Entwistle incident (13-week and 52-week periods ended December 27, 2019 - $3.0 million and $2.5 million). For the 13-week and 52-week period ended December 25, 2020, net loss included $0.2 million of net insurance recoverable related to the Houston incident ($nil for 2019).

(2) 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.

(3) For the 13-week and 52-week period ended December 25, 2020, AGM included $nil million and $3.1 million respectively of net insurance recoverable related to the Entwistle incident (13-week and 52-week periods ended December 27, 2019 - $3.4 million and $5.7 million). For the 13-week and 52-week period ended December 25, 2020, AGM included $0.3 million of net insurance recoverable related to the Houston incident ($nil for 2019).

(4) For the 13-week and 52-week period ended December 25, 2020, Adjusted EBITDA included $nil million and $2.6 million respectively of net insurance recoverable related to the Entwistle incident (13-week and 52-week periods ended December 27, 2019 - $3.2 million and $3.9 million). For the 13-week and 52-week period ended December 25, 2020, Adjusted EBITDA included $0.5 million of net insurance recoverable related to the Houston incident ($nil for 2019).

(5) Includes MT produced by all facilities managed by Pinnacle, including Houston Pellet LP ("HPLP") and Northern Pellet LP ("NPLP").

(6) Includes MT sold that were purchased from third parties, excluding HPLP.

(7) We enter into long-term, take-or-pay offtake 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 period.

RESULTS OF OPERATIONS

Summary of Fourth Quarter 2020 Financial Performance:

Revenue

Revenue for Q4 2020 totaled $116.9 million, an increase of $25.4 million, or 27.8%, compared to $91.5 million for Q4 2019. The increase is primarily attributable to increased sales volumes of 100k MT. 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. Q4 2020 resulted in a shift of revenue into Q1 2021 as a result of shipping and logistics delays related to weather at our Canadian port facilities and port congestion at the Mobile, AL port facility. Q4 2020 cost, insurance and freight ("CIF") sales tonnages were 13.4% higher than Q4 2019 and accounted for 68.1% of total sales in Q4 2020, compared to 74.2% in Q4 2019. Contracted price increases in our long term take-or-pay contracts contributed to an increase in revenue per metric tonne, which was slightly offset by the reduction in CIF contracts as a percentage of our overall revenue mix in Q4 2020 compared to Q4 2019. The mix of CIF and free on board ("FOB") contracts contribute to a shift between revenue and distribution costs, with similar net bottom line contributions for the Company.

Production

Production costs were $80.8 million for Q4 2020, an increase of $20.5 million, or 33.8% compared to $60.3 million for Q4 2019. The increase in production costs reflect higher sales volumes, increased purchases of third-party pellets to fulfill sales commitments and a decrease in business interruption insurance recoveries recorded. $0.5 million of business interruption insurance recoveries related to the Houston incident were recorded in Q4 2020, compared to $4.5 million of business interruption insurance recoveries recorded related to the Entwistle incident in Q4 2019.

Distribution

Distribution costs were $16.8 million for Q4 2020, an increase of $3.0 million, or 21.5% compared to $13.8 million for Q4 2019. The increase in distribution costs is driven primarily by the increase in sales volume, partially offset by a lower proportion of CIF contract sales as a percentage of total contract sales.

Selling, general and administration

SG&A expenses were $5.5 million for Q4 2020, an increase of $0.8 million, or 16.7% compared to $4.7 million for Q4 2019. The increase was primarily driven by the overall growth of the Company, including increased staffing requirements, partially offset by a decrease in professional fees and travel.

Amortization

Amortization expense was $10.8 million for Q4 2020, an increase of $0.4 million, or 3.7% compared to $10.4 million for Q4 2019 due to planned increases in capital assets over this period.

Finance costs

Finance costs were $6.0 million for Q4 2020, an increase of $1.2 million, or 25.0% compared to $4.8 million for Q4 2019. The increase was driven primarily by the increase in fair value loss on interest rate swaps due to the significant decline in interest rates as a result of COVID-19 and unfavourable differences in unrealized loss on foreign exchange through increased volatility in the quarter. This was partially offset by lower standby fees associated with the higher utilization of our Senior Credit Facilities to support the planned growth of the Company.

Other expense

Other expense was $0.3 million for Q4 2020 compared to $0.6 million in Q4 2019. The decrease in other expense is primarily related to less loss on disposal of PP&E in 2020 compared to 2019 and lack of various small expenses that is partially offset by $1.0 million in Q4 2019 related to the Entwistle incident in other income.

Summary of Year-to-Date 2020 Financial Performance:

Revenue

Revenue for YTD 2020 totaled $490.5 million, an increase of $112.7 million, or 29.8%, compared to $377.8 million for YTD 2019. The increase is primarily attributable to increased sales volumes of 521k MT. 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. Q4 2020 resulted in a shift of revenue into Q1 2021 as a result of shipping and logistics delays related to weather at our Canadian port facilities and port congestion at the Mobile, AL port facility. YTD 2020 CIF sales were 18.9% higher than YTD 2019 and accounted for 54.6% of total sales in YTD 2020 compared to 59.7% of total sales in YTD 2019. Contracted price increases in our long term take-or-pay contracts contributed to an increase in revenue per metric tonne, which was slightly offset by the reduction in CIF contracts as a percentage of our overall revenue mix in YTD 2020 compared to YTD 2019.

Production

Production costs were $346.3 million for YTD 2020, an increase of $87.7 million, or 33.9% compared to $258.6 million for YTD 2019. The increase in production costs reflect higher sales volumes, high cost of Q4 2019 inventory sold in Q1 2020, increased purchases of third-party pellets to fulfill sales commitments as well as a decrease in business interruption insurance recoveries recorded. The higher cost inventory included high fibre costs consumed in Q4 2019 as well as the costs associated with the CN Rail disruptions in Q4 2019. $4.1 million of business interruption insurance recoveries related to the Houston and Entwistle incidents were recorded in YTD 2020, compared to $13.0 million of business interruption insurance recoveries related to the Entwistle incident in YTD 2019. The increase in costs were partially offset by unit production cost savings in YTD 2020 compared to YTD 2019 from spreading out a greater proportion of fixed costs over higher same facility production volumes in the year.

Distribution

Distribution costs were $62.2 million for YTD 2020 an increase of $8.2 million, or 15.2% compared to $54.0 million for YTD 2019. The increase in distribution costs is primarily the result of increased sales volume in YTD 2020 compared to YTD 2019, partially offset by a lower proportion of CIF contract sales as a percentage of total contract sales.

Selling, general and administration

SG&A expenses were $20.0 million for YTD 2020, an increase of $1.6 million, or 8.4% compared to $18.5 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 and stock-based compensation.

Amortization

Amortization expense was $42.8 million for YTD 2020, an increase of $2.7 million, or 7.1% compared to $40.0 million for YTD 2019 due to planned increases in capital assets over this period.

Finance costs

Finance costs were $26.5 million for YTD 2020, an increase of $2.3 million, or 9.5% compared to $24.2 million for YTD 2019. The increase was driven primarily by the increase in fair value loss on interest rate swaps, which was partially offset by lower interest rates on the revolver loan, term loan and delayed draw loan and lower standby fees associated with the higher utilization of our Senior Credit Facilities to support the planned growth of the Company. Significant declines in interest rates as a result of COVID-19 impacted both of these items.

Other income

Other income was $2.4 million for YTD 2020, a decrease of $2.8 million, or 53.8% compared to $5.2 million for YTD 2019. The reduction in other income is primarily driven by YTD 2019 including $6.5 million of proceeds from the settlement of a legal claim against a former equipment supplier ($nil in YTD 2020), which was partially offset by higher insurance recovery for property loss, net of associated impairments related to the Entwistle incident 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[7]				2019[8]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	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	116,911	131,674	132,246	109,675	91,465	92,552	104,164	89,627
Costs and expenses								
Production [2]	80,751	83,500	95,888	86,129	60,334	60,189	70,903	67,121
Distribution	16,762	15,970	14,930	14,561	13,793	14,457	13,005	12,766
Selling, general and administration	5,538	5,342	4,511	4,657	4,747	4,808	5,147	3,793
Amortization	10,790	11,453	9,793	10,794	10,404	10,067	9,924	9,602
	113,841	116,265	125,122	116,141	89,278	89,521	98,979	93,282
Income/(loss) before finance costs and other income/(expenses)	3,070	15,409	7,124	(6,466)	2,187	3,031	5,185	(3,655)
Finance cost	(5,977)	(5,965)	(6,247)	(8,346)	(4,839)	(4,813)	(7,753)	(6,773)
Other (expense)/income [3]	(290)	1,200	(888)	2,395	(649)	(71)	4,991	880
	(6,267)	(4,764)	(7,135)	(5,951)	(5,488)	(4,884)	(2,762)	(5,893)
Net (loss)/income before income taxes	**(3,197)**	**10,645**	**(11)**	**(12,417)**	**(3,301)**	**(1,853)**	**2,423**	**(9,548)**
Income tax recovery/(expense)								
Deferred income taxes	700	(2,905)	28	3,285	246	394	(877)	2,542
Net (loss)/income attributable to:	**(2,497)**	**7,740**	**17**	**(9,132)**	**(3,055)**	**(1,459)**	**1,546**	**(7,006)**
Owners of the Company	(1,965)	6,946	(1,187)	(8,835)	(3,661)	(1,695)	1,241	(6,692)
Non-controlling interests	(532)	794	1,204	(297)	606	236	305	(314)
Net (loss)/income	**(2,497)**	**7,740**	**17**	**(9,132)**	**(3,055)**	**(1,459)**	**1,546**	**(7,006)**
Annualized Return on Invested Capital [4]	11.2%	19.6%	12.2%	3.1%	8.8%	11.3%	14.0%	6.5%
Annualized Cash Flow Return on Assets [4]	11.5%	14.9%	13.6%	6.6%	10.6%	9.8%	7.5%	13.1%
Net (loss)/income per share attributable to owners (basic and diluted)	**(0.06)**	**0.21**	**(0.04)**	**(0.26)**	**(0.09)**	**(0.05)**	**0.04**	**(0.20)**
Operating Highlights								
(in thousands MT)								
Industrial wood pellets produced [5]	489	587	518	452	442	441	451	407
Industrial wood pellets purchased [6]	39	15	71	35	16	33	27	15
Industrial wood pellets sold	526	600	626	510	426	434	478	402

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 income (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 as well as changes in interest rates driving impacts to finance costs from our interest rate swaps.

(2) In Q4 2020, $0.2 million of costs related to 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, $0.5 million in Q4 2020 $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 plant 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) 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.

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

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

(7) The timing of remaining costs related 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.

(8) 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.

LIQUIDITY

Pinnacle's net debt (current and long term debt, current and long term lease liabilities (excluding charter vessel), offset by cash and cash equivalents) at December 25, 2020 was $411.2 million, while available liquidity (cash and cash equivalents and unused credit capacity) was $153.3 million. This compares with net debt of $389.4 million and liquidity of $169.6 on September 25, 2020. Net debt includes $84.7 million relating to capital expenditures on growth-related projects not yet commissioned, as well as $34.7 million associated with the recently completed High Level mill. Pinnacle's net debt (current and long-term debt, current and long-term lease liabilities (excludes charter vessel), offset by cash and cash equivalents) at December 25, 2020 was $411.2 million representing an increase of $69.5 million since December 27, 2019.

As at December 25, 2020, the Company had working capital of $(12.9) million and available liquidity of $153.3 million, based on the full borrowing capacity of $530.0 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 December 25, 2020 and December 27, 2019, the Company was in compliance with all debt covenants.

Analysis of cash flows

(In thousands $)	**Q4 2020 13 weeks**	**Q4 2019 13 weeks**	**Q4 2020 52 weeks**	**Q4 2019 52 weeks**
Cash flow from operations before net change in non-cash working capital	**14,675**	9,918	**70,959**	53,011
Net change in non-cash operating working capital	**17,690**	(1,035)	**15,317**	(20,049)
Financing activities	**(648)**	18,769	**44,018**	13,115
Investing activities	**(41,576)**	(24,682)	**(129,714)**	(52,875)
Foreign exchange	**(393)**	(38)	**(337)**	37
Change in cash	**(10,252)**	2,932	**243**	(6,761)
Cash and cash equivalents, beginning of period	**21,762**	8,335	**11,267**	18,028
Cash and cash equivalents, end of period	**11,510**	11,267	**11,510**	11,267

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 $14.7 million for Q4 2020 compared to $9.9 million for Q4 2019. The increase is driven primarily by the incremental margin earned on increased sales volumes. Cash flow from operations before net change in non-cash working capital was $71.0 million for YTD 2020, an increase of $18.0 million compared to $53.0 million for YTD 2019. The increase is driven primarily by the incremental margin earned on increased sales volumes and an increase in business interruption insurance received related to the Entwistle incident. These were partially offset by a reduction in cash distributions from our Houston facility in YTD 2020 compared to YTD 2019.

Net change in non-cash operating working capital

The net change in non-cash operating working capital during Q4 2020 was $17.7 million compared to $(1.0) million in Q4 2019. The increase in non-cash operating working capital was primarily due to a decrease in accounts receivable driven by the timing of payments received on sales. The net change in non-cash operating working capital during YTD 2020 was $15.3 million compared to $(20.0) million in YTD 2019. The increase was primarily due to a decrease in finished goods inventory held at yearend as well as an increase in accounts payable driven by increased business volumes and timing of payments. This was partially offset by a decrease in other current assets due to the settlement of our forward foreign exchange contracts.

Financing activities

Cash provided by financing activities during Q4 2020 was $(0.6) million compared to cash provided by financing activities of $18.8 million in Q4 2019. The decrease in cash provided by financing activities was primarily due to decreased drawings on the delayed draw loan as well as increased payments on leases, which were partially offset by a decrease in dividends paid in the quarter. Cash provided by financing activities was $44.0 million in YTD 2020 compared to $13.1 million in YTD 2019. The increase in cash provided by financing activities was primarily due to an increase in investment from non-controlling interest, an increase in net drawings on our Senior Credit Facilities to facilitate the overall growth of the Company and a reduction in dividends paid in the period.

Investing activities

The increase in cash used for investing activities for the QTD and YTD is primarily due to cash outflows related 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 December 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	-	5,600	-	5,600
Drawings	6,000	280,000	102,200	388,200
Unused portion of facility	59,000	-	82,800	141,800
Add:				
Cash and cash equivalents	-	-	-	11,510
Available liquidity at December 25, 2020	59,000	-	82,800	153,310

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.

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.

NPLP transactions

NPLP is owned 50% by us and 50% by non-related third parties. We will purchase industrial wood products from NPLP once the Facility is operational and earn revenue from sales of fibre and distribution fees. We will manage and administer the business affairs of NPLP and charge a management fee. These transactions are at negotiated amounts with the non-related third parties.

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

HPLP transactions

HPLP is owned 30% by us and 70% by non-related third parties. We purchase industrial wood products from HPLP and earn revenue from sales of fibre and distribution fees. We manage and administer the business affairs of HPLP and charge a management fee. These transactions are at negotiated amounts with the non-related third parties.

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

LPLP transactions

LPLP is owned 75% by us and 25% by a non-related third party. We purchase industrial wood products from LPLP and earn revenue from sales of fibre at negotiated prices with the non-related third party. We manage and administer the business affairs of LPLP.

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

SPLP transactions

SPLP is owned 70% by us and 30% by a non-related third party. We and the non-related third party make contributions proportionate to our ownership interest to fund the construction of the Smithers Facility. We manage and administer the business affairs of SPLP.

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

PWRH LLC transactions

PWRH LLC is owned 70% by us and 30% by a non-related third party. We and the non-related third party make contributions proportionate to our ownership interest to fund the capital spending program at the Aliceville Facility through WPI LLC. We manage and administer the business affairs of PWRH LLC.

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

Significant shareholder

Based on information provided by ONCAP, as at December 25, 2020 ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31% of the issued and outstanding common shares of the Company. ONCAP is ultimately controlled by Onex Corporation.

See Note 18 to the Consolidated Financial Statements for additional details on related party transactions.

CONTRACTUAL OBLIGATIONS

The obligations under the Senior Credit Facilities are discussed in the "Liquidity and Capital Resources" section of this MD&A.

As at December 25, 2020	Carrying amount	Contractual cash flows[2]	Current	Between 2 and 5 years	More than 5 years
Accounts payable and accrued liabilities	64,737	64,737	64,737	-	-
Revolver loan	6,000	6,000	6,000	-	-
Term loan	274,400	274,400	16,800	257,600	-
Delayed draw loan	102,200	102,200	5,995	96,205	-
Lease liabilities	103,644	143,519	16,410	50,511	76,598

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 19 to the 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,

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

rail car leases, vessel 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 loan, 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 February 24, 2021, we had 33,359,570 common shares issued and outstanding and no preferred shares issued and outstanding. As of February 24, 2021, an aggregate of 2,046,012 options to acquire common shares are outstanding and 143,868 restricted share units entitling the holder to receive common shares are outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

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.

Remediation of Material Weakness in Internal Control

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, which would include a reasonability analysis on the derivatives against the market interest and currency rates. Pinnacle will continue reviewing the design and operating effectiveness of the Company's ICFR with independent experts to improve its control environment. As of December 25, 2020, management believes that the material weakness in June 2020 was remediated and performing effectively.

Procedures performed in 2020 to test the design and operating effectiveness of internal controls over financial reporting confirmed that controls and the remediated control relating to the interest rate swap are adequate and provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS as at December 25, 2020.

Limitations of Controls and Procedures

Pinnacle's management, including the CEO, CFO and Disclosure Committee, 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

The Company, after completing its testing of the design and operating effectiveness of the controls included in the remediation plan, has concluded that it has remediated the previously identified material weakness as of December 25, 2020. There have been no other changes to ICFR in the 13-week and 52-week periods ended December 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(c) with the associated accounting policy in note 3 to our audited consolidated financial statements for the year ended December 25, 2020.

Recently Adopted Significant Accounting Standards

No new significant accounting standards were adopted in 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

	Q4 2020 13 weeks	**Q4 2019 13 weeks**	**Q4 2020 52 weeks**	**Q4 2019 52 weeks**
Operating income	**3,070**	2,187	**19,137**	6,748
Selling, general and administration	**5,538**	4,747	**20,049**	18,495
Amortization	**10,790**	10,404	**42,830**	39,997
Equity (loss)/earnings in HPLP	**(104)**	(315)	**(330)**	573
Non-controlling interests	**532**	(606)	**(1,165)**	(833)
Adjusted Gross Margin[7]	**19,826**	16,417	**80,521**	64,980
Adjusted Gross Margin per MT[7]	**37.69**	38.54	**35.60**	37.34
Adjusted Gross Margin Percentage[7]	**17.0%**	17.9%	**16.4%**	17.2%

Adjusted EBITDA

	Q4 2020 13 weeks	**Q4 2019 13 weeks**	**Q4 2020 52 weeks**	**Q4 2019 52 weeks**
Net Loss	**(2,497)**	(3,055)	**(3,876)**	(9,974)
Income tax recovery	**(700)**	(246)	**(1,109)**	(2,305)
Finance costs	**5,977**	4,839	**26,534**	24,178
Amortization of equipment and intangible assets	**10,790**	10,404	**42,830**	39,997
EBITDA	**13,570**	11,942	**64,380**	51,896
EBITDA Adjustments				
Stock-based compensation expense	**238**	136	**642**	1,020
Loss on disposal and impairment of PP&E [1]	**331**	818	**1,058**	10,798
Insurance recovery on Entwistle incident	**-**	(1,000)	**(3,643)**	(9,000)
Gain on legal settlement[2]	**-**	-	**-**	(6,461)
Other Items [2]	**1,303**	(614)	**(790)**	(1,080)
Total adjustments	**1,872**	(660)	**(2,733)**	(4,723)
Adjusted EBITDA[8]	**15,441**	11,282	**61,646**	47,173
Adjusted EBITDA per MT[8]	**29.35**	26.48	**27.25**	27.11

Free Cash Flow

	Q4 2020 13 weeks	**Q4 2019 13 weeks**	**Q4 2020 52 weeks**	**Q4 2019 52 weeks**
Adjusted EBITDA [8]	**15,441**	11,282	**61,646**	47,173
Maintenance CAPEX [3]	**(3,996)**	(4,417)	**(9,019)**	(11,695)
Interest and finance costs, net	**(3,928)**	(3,914)	**(16,190)**	(16,308)
Mandatory amortization [4]	**(1,400)**	-	**(5,600)**	(2,000)
Free Cash Flow	**6,117**	2,951	**30,837**	17,170

Annualized Return on Invested Capital

	Q4 2020 13 weeks	Q4 2019 13 weeks	Q4 2020 52 weeks	Q4 2019 52 weeks
Adjusted EBITDA(8)	**15,441**	11,282	**61,646**	47,173
Invested capital - beginning of period(5)	**542,966**	520,183	**504,975**	433,446
Invested capital - end of period(5)	**558,227**	504,975	**558,227**	504,975
Average invested capital	**550,597**	512,579	**531,601**	469,211
Adjusted EBITDA divided by average Invested Capital(8)	**2.8%**	2.2%	**11.6%**	10.1%
Annualization factor	**4.00**	4.00	**1.00**	1.00
Annualized Return on Invested Capital	**11.2%**	8.8%	**11.6%**	10.1%

Annualized Cash Flow Return on Assets

	Q4 2020 13 weeks	Q4 2019 13 weeks	Q4 2020 52 weeks	Q4 2019 52 weeks
Long term assets	**676,159**	510,732	**676,159**	510,732
Non-interest-bearing working capital(6)	**12,876**	42,169	**12,876**	42,169
Total applicable assets	**689,035**	552,901	**689,035**	552,901
Average applicable assets during the period	**648,601**	541,883	**634,874**	539,366
Cash flow from operations less maintenance capital expenditure	**18,670**	14,335	**69,923**	53,226
Cash flow from operations divided by average assets	**2.9%**	2.6%	**11.0%**	9.9%
Annualization factor	**4.00**	4.00	**1.00**	1.00
Annualized Cash Flow Return on Assets	**11.5%**	10.6%	**11.0%**	9.9%

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 Alabama Pellets, LLC ("APLLC").

(2) Other items include legal and executive search costs in Q4 2020, legal fees related to pursuing a damage claim, deduction for the non-controlling interests' share of LPLP, SPLP and APLLC, realized (gain) loss on derivatives and foreign exchange, and includes our share of amortization of HPLP and excludes the non-controlling interests' share of LPLP, SPLP and APLLC.

(3) "Maintenance CAPEX" 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.

(4) Mandatory amortization was incurred in 2020. Debt refinancing was completed in June 2020. 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 52-week period ended December 25, 2020, AGM included $nil million and $3.1 million respectively of net insurance recoverable related to the Entwistle incident (13-week and 52-week periods ended December 27, 2019 - $3.4 million and $5.7 million). For the 13-week and 52-week period ended December 25, 2020, AGM included $0.3 million of net insurance recoverable related to the Houston incident ($nil for 2019). For the 13-week and 52-week period ended December 25, 2020 without the Entwistle and Houston incidents AGM per MT would have been $37.06/MT and $34.08/MT respectively (13-week and 52-week periods ended December 27, 2019 – $30.63/MT and $34.09/MT). AGM percentage would have been 16.7% and 15.7% (13-week and 52-week periods ended December 27, 2019 14.3% and 15.7%)

(8) For the 13-week and 52-week period ended December 25, 2020, Adjusted EBITDA included $nil million and $2.6 million respectively of net insurance recoverable related to the Entwistle incident (13-week and 52-week periods ended December 27, 2019 - $3.2 million and $3.9 million). For the 13-week and 52-week period ended December 25, 2020, Adjusted EBITDA included $0.5 million of net insurance recoverable related to the Houston incident ($nil for 2019). For the 13-week and 52-week period ended December 25, 2020 without the Entwistle and Houston incidents Adjusted EBITDA per MT would have been $28.50/MT and $25.92/MT (13-week and 52-week periods ended December 27, 2019 - $19.07/MT and $24.84/MT). For the 13-week and 52-week period ended December 25, 2020 without the Entwistle and Houston incidents Adjusted EBITDA % would have been 12.9% and 11.9% (13-week and 52-week periods ended December 27, 2019 – 8.7% and 11.0%).

Additional Information

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