

Second quarter of Fiscal 2020

For the 13-week and 26-week periods  
ended June 26, 2020 and June 28, 2019

# Interim Condensed Consolidated Financial Statements



**Pinnacle**®  
RENEWABLE ENERGY

**PINNACLE RENEWABLE ENERGY INC.**

Interim Condensed Consolidated Statements of Financial Position  
(Expressed in thousands of Canadian dollars unless otherwise stated)  
(Unaudited)

As at	Note	June 26, 2020	December 27, 2019
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		19,845	11,267
Accounts receivable		37,284	36,764
Inventory	3	36,994	46,938
Receivable against NMTC debt		-	12,774
Other current assets		8,310	11,436
<b>Total current assets</b>		<b>102,433</b>	119,179
Property, plant and equipment	4	444,715	399,181
Goodwill and intangible assets		98,923	100,191
Restricted cash		2,770	-
Investment in Houston Pellet Limited Partnership		6,991	7,548
Other long-term assets		43	1,364
Deferred income taxes	9	5,757	2,448
<b>Total assets</b>		<b>661,632</b>	629,911
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Revolver loan	5	-	19,200
Accounts payable and accrued liabilities		57,482	51,183
Current portion of long-term debt	5	15,050	4,200
Current portion of NMTC debt		-	12,774
Current portion of lease liabilities		7,545	7,424
Other current liabilities		822	1,786
<b>Total current liabilities</b>		<b>80,899</b>	96,567
Long-term debt	5	342,390	292,614
Other long-term liabilities		6,521	2,462
Lease liabilities		27,989	29,551
<b>Total liabilities</b>		<b>457,799</b>	421,194
<b>Equity</b>			
Shareholders' Equity			
Common shares	6	278,053	277,619
Contributed surplus		4,228	4,145
Accumulated Other Comprehensive Income/(loss)		584	(1,320)
Deficit		(133,467)	(117,191)
<b>Total equity attributable to owners of the Company</b>		<b>149,398</b>	163,253
Non-controlling interest		54,435	45,464
<b>Total equity</b>		<b>203,833</b>	208,717
<b>Total liabilities and equity</b>		<b>661,632</b>	629,911

Contingencies (note 13)

See accompanying notes to the consolidated financial statements

**APPROVED BY THE BOARD**

*s/Gregory Baylin*

Director, Gregory Baylin

*s/Rex McLennan*

Director, Rex McLennan



# PINNACLE RENEWABLE ENERGY INC

Interim Condensed Consolidated Statements of Income/(Loss)  
 (Expressed in thousands of Canadian dollars unless otherwise stated)  
 (Unaudited)

	Note	13-week periods ended		26-week periods ended	
		June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Revenue	14	<b>132,246</b>	104,164	<b>241,921</b>	193,791
Costs and expenses					
Production		<b>95,888</b>	70,903	<b>182,017</b>	138,024
Distribution		<b>14,930</b>	13,005	<b>29,491</b>	25,771
Selling, general and administration	7	<b>4,511</b>	5,147	<b>9,168</b>	8,940
Amortization of equipment and intangible assets		<b>9,793</b>	9,924	<b>20,587</b>	19,526
		<b>125,122</b>	98,979	<b>241,263</b>	192,261
Operating income		<b>7,124</b>	5,185	<b>658</b>	1,530
Other income/(expense)					
Equity earnings/(loss) in Houston Pellet Limited Partnership		<b>(269)</b>	395	<b>(557)</b>	707
loss on disposal of property, plant and equipment		<b>(855)</b>	(67)	<b>(876)</b>	(97)
Impairment of Entwistle plant		-	-	-	(9,417)
Impairment of Intangibles		-	-	-	(278)
Insurance recovery for property loss at Entwistle plant		-	5,000	<b>2,500</b>	8,000
Finance costs	8	<b>(6,247)</b>	(7,753)	<b>(14,593)</b>	(14,526)
Other income		<b>236</b>	(337)	<b>440</b>	6,956
		<b>(7,135)</b>	(2,762)	<b>(13,086)</b>	(8,655)
Net profit/(loss) before income taxes		<b>(11)</b>	2,423	<b>(12,428)</b>	(7,125)
Income tax recovery/(expense)					
Deferred	9	<b>28</b>	(877)	<b>3,313</b>	1,665
		<b>28</b>	(877)	<b>3,313</b>	1,665
Net profit/(loss)		<b>17</b>	1,546	<b>(9,115)</b>	(5,460)
Net profit/(loss) attributable to:					
Owners of the Company		<b>(1,187)</b>	1,241	<b>(10,022)</b>	(5,451)
Non-controlling interests		<b>1,204</b>	305	<b>907</b>	(9)
		<b>17</b>	1,546	<b>(9,115)</b>	(5,460)
Net loss per share attributable to owners (Basic and diluted):	10	<b>(0.04)</b>	0.04	<b>(0.30)</b>	(0.16)
Weighted average of number of shares outstanding (thousands):	10	<b>33,359</b>	33,300	<b>33,357</b>	33,170

See accompanying notes to the interim condensed consolidated financial statements



## PINNACLE RENEWABLE ENERGY INC.

Interim Consolidated Statements of Comprehensive Income/(Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

	Note	13-week periods ended		26-week periods ended	
		June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Net profit/(loss)		17	1,546	(9,115)	(5,460)
Other comprehensive income (loss) net of taxes:					
Items that may be recycled through net income:					
Foreign exchange translation of foreign operations, net of tax		(3,085)	(731)	2,720	(1,198)
Comprehensive income/(loss) for the period		(3,068)	815	(6,395)	(6,658)
Comprehensive income (loss) attributable to:					
Owners of the Company		(3,346)	191	(8,118)	(6,968)
Non-controlling interests		278	624	1,723	310
		(3,068)	815	(6,395)	(6,658)



## PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Changes in Equity  
(Expressed in thousands of Canadian dollars unless otherwise stated)  
(Unaudited)

	Number of Common Shares (#)	Common Shares	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
<b>Balance, December 28, 2018</b>	<b>33,003,713</b>	<b>273,966</b>	<b>3,556</b>	-	<b>(86,423)</b>	<b>39,699</b>	<b>230,798</b>
Net loss for the period	-	-	-	-	(5,451)	(9)	(5,460)
Stock options exercised during the period	34,036	378	(157)	-	-	-	221
RSUs settled during the period	262,342	3,073	-	-	-	-	3,073
Stock-based compensation	-	-	422	-	-	-	422
Dividends declared during the period	-	-	-	-	(9,946)	-	(9,946)
Reversal of excess dividend accrual	-	-	-	-	(23)	-	(23)
Distribution to non-controlling interests	-	-	-	-	-	(550)	(550)
Foreign exchange translation of foreign operations, net of tax	-	-	-	(1,517)	-	319	(1,198)
Investment by non-controlling interest	-	-	-	-	-	1,350	1,350
<b>Balance, June 28, 2019</b>	<b>33,300,091</b>	<b>277,417</b>	<b>3,821</b>	<b>(1,517)</b>	<b>(101,843)</b>	<b>40,809</b>	<b>218,687</b>
<b>Balance, December 27, 2019</b>	<b>33,318,352</b>	<b>277,619</b>	<b>4,145</b>	<b>(1,320)</b>	<b>(117,191)</b>	<b>45,464</b>	<b>208,717</b>
Net loss for the period	-	-	-	-	(10,022)	907	(9,115)
Stock options exercised during the period (note 6)	41,218	434	(190)	-	-	-	244
Stock-based compensation (note 6)	-	-	273	-	-	-	273
Dividends declared during the period (note 6)	-	-	-	-	(6,254)	-	(6,254)
Foreign exchange translation of foreign operations, net of tax	-	-	-	1,904	-	816	2,720
Distribution to non-controlling interests	-	-	-	-	-	(362)	(362)
Investment from non-controlling interests	-	-	-	-	-	7,610	7,610
<b>Balance, June 26, 2020</b>	<b>33,359,570</b>	<b>278,053</b>	<b>4,228</b>	<b>584</b>	<b>(133,467)</b>	<b>54,435</b>	<b>203,833</b>

See accompanying notes to the interim condensed consolidated financial statements



# PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Cash Flows  
(Expressed in thousands of Canadian dollars unless otherwise stated)  
(Unaudited)

	Note	13-week periods ended		26-week periods ended	
		June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Cash provided by (used in)					
<b>Operating activities</b>					
Net profit/(loss)		17	1,546	(9,115)	(5,460)
Financing costs, net	8	6,247	7,753	14,593	14,526
Distributions from Houston Pellet Limited Partnership		-	-	-	2,400
Insurance received for business interruption at Entwistle plant	13	3,500	-	6,400	-
Realized gain on derivatives and foreign exchange		1,011	512	1,121	997
Items not involving cash:					
Amortization of equipment and intangible assets		9,793	9,924	20,587	19,526
Equity earnings/(loss) in Houston Pellet Limited Partnership		269	(395)	557	(707)
Loss on disposal of equipment		855	67	876	97
Stock-based compensation	6	26	461	231	629
Inventory write down	3	311	263	3,437	590
Impairment of Entwistle plant		-	-	-	9,417
Impairment of intangible assets		-	-	-	278
Insurance recoverable recorded in income for Entwistle plant	13	-	(6,500)	(3,500)	(9,500)
Deferred income tax recovery	9	(28)	952	(3,313)	(1,665)
Cash flow from operating activities		22,001	14,583	31,874	31,128
Net change in non-cash operating working capital	11	14,151	(6,507)	16,077	(12,798)
		36,152	8,076	47,951	18,330
<b>Financing activities</b>					
Drawings on revolver loan		68,800	-	123,000	-
Repayment of revolver loan		(79,800)	(16,500)	(142,200)	(18,450)
Payment of finance leases		(2,578)	(2,385)	(5,039)	(4,715)
Drawings on term debt		-	277,973	-	277,973
Repayment of term debt		(1,400)	(192,000)	(1,400)	(194,000)
Drawings on delayed draw loan		28,200	(49,760)	62,300	(49,760)
Proceeds from exercise of stock options		-	-	243	221
Dividends paid during the period		(1,250)	(4,995)	(6,254)	(9,946)
Investment from non-controlling interest		5,833	-	7,610	1,350
Distributions to non-controlling interest		-	(250)	(362)	(550)
Finance costs paid		(4,179)	(4,945)	(8,900)	(8,589)
		13,626	7,138	28,998	(6,466)
<b>Investing activities</b>					
Insurance recovery for property loss at Entwistle plant	13	2,500	-	3,500	-
(Increase)/ decrease in restricted cash		85	-	(2,770)	-
Purchase of property, plant and equipment	4	(35,453)	(13,942)	(69,095)	(20,236)
Proceeds from sale of property, plant and equipment		-	53	24	86
		(32,868)	(13,889)	(68,341)	(20,150)
Foreign exchange gain on cash position held in foreign currency		(113)	(8)	(30)	85
Increase (decrease) in cash and cash equivalents		16,797	1,317	8,578	(8,201)
Cash and cash equivalents, beginning of the period		3,048	8,510	11,267	18,028
<b>Cash and cash equivalents, end of the period</b>		<b>19,845</b>	<b>9,827</b>	<b>19,845</b>	<b>9,827</b>

See accompanying notes to the consolidated financial statements



## **PINNACLE RENEWABLE ENERGY INC.**

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 26-week periods ended June 26, 2020 and June 28, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

### **1. Nature of operations and basis of preparation**

Pinnacle Renewable Energy Inc. (the “Company” or “Pinnacle”) was incorporated on December 6, 2010 under the laws of the Province of British Columbia and maintains its head office at 350-3600 Lysander Lane, Richmond, British Columbia. Pursuant to an initial public offering (“IPO”) on February 6, 2018, the Company’s shares became publicly traded on the Toronto Stock Exchange under the symbol “PL”.

The Company is primarily involved in the manufacture and sale of wood pellets for both industrial electrical power generation and home heating consumption in North America, Asia and Europe. The Company operates facilities at various locations, including in the Provinces of British Columbia and Alberta in Canada, and in the State of Alabama in the United States (“US”).

#### ***Seasonality of Operations***

Pinnacle’s costs of production are impacted by seasonal weather variation. Costs of fuel for fibre drying in preparation for pelletization are higher in the winter months and can decrease production volumes. In summer, when less drying is required, costs decrease, and volumes are generally higher.

#### ***Statement of compliance***

These interim condensed consolidated financial statements (“interim financial statements”) of the Company have been prepared in accordance with International Financial Reporting Standards and Interpretations (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting. These interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 10, 2020.

Certain prior period balances have been reclassified to conform to current period presentation.

### **2. Significant accounting policies**

The significant accounting policies applied in the preparation of these interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited consolidated financial statements for the year ended December 27, 2019. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 27, 2019.

#### ***Adoption of new accounting standards and accounting standards issued but not yet effective***

There were no new significant accounting standards adopted in the 13-week and 26-week periods ended June 26, 2020. A number of amendments to existing standards are effective from January 1, 2020, but they are not expected to have a material effect on the Company’s financial statements.



## PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements  
For the 13-week period and 26-week periods ended June 26, 2020 and June 28, 2019  
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(Unaudited)

### 3. Inventory

As at	June 26, 2020	December 27, 2019
Wood pellets	10,336	23,068
Fibre	16,136	14,159
Supplies and spare parts	10,522	9,711
	<b>36,994</b>	<b>46,938</b>

The provision related to wood pellets as at June 26, 2020 was \$390 (December 27, 2019 - \$376). Changes to the provision are included in production costs in the statement of profit or loss.

Included in the above fibre inventory amounts were provisions of \$226 (December 27, 2019- provisions of \$181). Changes to the provision are included in production costs in the statement of profit or loss.

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

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in- progress	ROU Assets	Total
<b>Balance, December 27, 2019</b>	<b>76,839</b>	<b>256,449</b>	<b>29,442</b>	<b>36,451</b>	<b>399,181</b>
Reclassification to ROU assets	(125)	-	-	125	-
Additions	-	-	60,499	3,524	64,023
Amortization	(2,502)	(12,940)	-	(4,114)	(19,556)
Disposals and retirements	-	(775)	-	(1,033)	(1,808)
Exchange rate movement	187	2,357	350	(19)	2,875
Transfer from construction-in-progress	5,491	17,979	(23,470)	-	-
<b>Balance, June 26, 2020</b>	<b>79,890</b>	<b>263,070</b>	<b>66,821</b>	<b>34,934</b>	<b>444,715</b>
Cost	108,812	401,437	66,821	47,160	624,230
Accumulated amortization	(28,922)	(138,367)	-	(12,226)	(179,515)
<b>Balance, June 26, 2020</b>	<b>79,890</b>	<b>263,070</b>	<b>66,821</b>	<b>34,934</b>	<b>444,715</b>

Disposals and retirements include \$493 of ROU rail car assets that were written off due to damages caused by a derailment during the period ended March 27, 2020. These leased rail cars have not been replaced and future minimum lease payments have been reduced. At June 26, 2020, PP&E includes \$31,904 (December 27, 2019 - \$9,449) related to the construction-in-progress for the High-Level Facility.

Amortization expense includes amortization recharged to Houston Pellet Limited Partnership and included as a reduction of equity earnings in the statement of profit/(loss).





## PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 26-week periods ended June 26, 2020 and June 28, 2019

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(Unaudited)

### 5. Long-term debt

As at	June 26, 2020	December 27, 2019
Revolver loan	-	19,200
Term loan	<b>278,600</b>	280,000
Delayed draw	<b>82,300</b>	20,000
	<b>360,900</b>	319,200
Less:		
Revolver loan - current portion	-	(19,200)
Term loan - current portion	<b>(12,600)</b>	(4,200)
Delayed draw -current portion	<b>(2,450)</b>	-
Deferred financing costs	<b>(3,460)</b>	(3,186)
	<b>342,390</b>	292,614

On June 26, 2020 the Company amended its senior secured debt, which provides up to a \$65,000 revolving operating line, a \$280,000 term loan, and a \$185,000 delayed draw term loan (the “Facility”). Amendment terms include a modification of financial covenant headroom until June 2021 and an extension of access to the delayed draw facility until June 30, 2021. The Facility has a maturity date of June 14, 2024.

Advances under the Amended Facility are available as Canadian dollar Prime-Based Loans, Banker’s Acceptances (“BA”) from the BA Lenders in Canadian dollars, BA Equivalent Loans from the Non-BA Lenders in Canadian dollars, US dollar Base Rate Loans, and LIBOR Loans in US dollars. Interest accrues daily at the applicable Bank Prime, BA, US Base or LIBOR rate plus a margin. The margin varies based on the ratio of Senior Debt to Adjusted EBITDA with a minimum margin of 1.50% and 2.50% from Prime/US Base and BA/LIBOR loans, respectively, and maximum margin of 4.00% and 5.00%, respectively.

At June 26, 2020, the \$278,600 term loan was in a CAD BA loan at 4.53% (December 27, 2019: CAD BA loan at 5.45%) and the \$82,300 delayed draw was in a CAD Prime loan at 5.95% (December 27, 2019: CAD Prime loan at 6.95%).

At June 26, 2020, the Company had issued letters of credit totaling \$1,312 (December 27, 2019- \$970).

EBITDA and Adjusted EBITDA are defined in the Facility agreement and used in the calculation of debt covenants and interest rate margins. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The Facility agreement provides for calculation of the debt covenants prior to the application of IFRS 16. The NMTC Debt is not included in the calculation of Total Funded Debt (as defined in the Amended Facility agreement), as it is indemnified by Westervelt and the Company records a NMTC Receivable from Westervelt of an equal amount. As at June 26, 2020 and December 27, 2019, the Company was in compliance with all debt covenants.

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



## PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements  
For the 13-week period and 26-week periods ended June 26, 2020 and June 28, 2019  
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(Unaudited)

### 6. Shareholders' equity

As at June 26, 2020, the Company's authorized share capital consisted of the following:

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

On March 26, 2020, the Company paid a cash dividend of \$0.15 per common share to the shareholders of record as at March 12, 2020.

On June 5, 2020, the Company paid a cash dividend of \$0.0375 per common share to the shareholders of record as at May 22, 2020.

### Stock-based compensation

The Company has a legacy stock option plan (the "Legacy Plan") and an Omnibus Long-term Incentive Plan (the "LTIP") to facilitate the granting of options and restricted share units ("RSUs") to certain of the Company's directors, executive officers, employees and consultants.

#### a) Legacy Plan

The Legacy Plan is closed for any new awards and will be terminated once the remaining options are no longer outstanding.

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

	13-week periods ended				26-week periods ended			
	June 26, 2020		June 28, 2019		June 26, 2019		June 28, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,502,179	\$ 8.23	1,560,455	\$ 8.16	1,543,397	\$ 8.18	1,594,491	\$ 8.13
Exercised	-	-	-	-	(41,218)	6.48	(34,036)	6.48
Outstanding, end of period	1,502,179	\$ 8.23	1,560,455	\$ 8.16	1,502,179	\$ 8.23	1,560,455	\$ 8.16

For the 13-week and 26-week periods ended June 26, 2020, a total of \$47 and \$93 in stock-based compensation was recognized in relation to the Legacy Plan (13-week and 26-week periods ended June 28, 2019 - \$68 and \$170 respectively). Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

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

In connection with the IPO, the Company adopted the LTIP pursuant to which it can grant awards to directors, executive officers, employees and consultants. Awards are granted in the form of options, which represent the right to acquire common shares at certain exercise prices, and RSUs, which represent the right to receive common shares or cash.



## PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements  
For the 13-week period and 26-week periods ended June 26, 2020 and June 28, 2019  
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### 6. Shareholders' equity (continued)

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

##### i. Options

For the 26-week period ended June 26, 2020, the Company granted 3,000 (2019 – 422,000) options which vest annually on the anniversary of the grant date over a period of three years. These options expire 10 years from the grant date.

The fair value of the options on grant date is estimated using a Black-Scholes option pricing model with the following assumptions:

	2020	2019
Dividend yield	5.33%	5.33%
Expected volatility	31.82%	31.82%
Risk-free interest rate	0.95%	1.55% to 1.87%
Expected life	10 years from grant date	10 years from grant date
Exercise price	\$8.58	\$ 9.56 to \$ 11.78

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

	13-week periods ended				26-week periods ended			
	June 26, 2020		June 28, 2019		June 26, 2020		June 28, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	605,500	\$ 10.83	572,000	\$ 10.89	602,500	\$ 10.83	150,000	\$ 14.53
Granted	-	-	-	-	3,000	9.21	422,000	9.60
Forfeited/cancelled/expired	(11,667)	9.56	-	-	(11,667)	9.56	-	-
Outstanding, end of period	593,833	\$ 10.83	572,000	\$ 10.89	593,833	\$ 10.85	572,000	\$ 10.89

For the 13-week and 26-week periods ended June 26, 2020, a total of \$61 and \$180 of stock-based compensation expense in relation to options granted under the LTIP was included in selling, general and administration expenses, (13-week and 26 week periods ended June 28, 2019 - \$181 and \$220 respectively).

##### ii. Restricted share units

During the 13-week and 26-week periods ended June 26, 2020, the Company granted Nil and 4,026 RSUs, respectively (During the 13-week and 26-week periods ended June 28, 2019 – 1692 and 3,285 RSU's respectively), which vest annually on the anniversary of the grant date over a period of three years. These RSUs are to be settled no later than December 31 of the calendar year which is three years from the vesting date.

As the RSUs can be settled in either common shares or cash at the option of the RSU holder, the RSUs represent a compound award with liability and equity components. The fair value of the liability component was determined to approximate the fair value of the whole RSU, with no residual value to be assigned to the equity component.



## PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 26-week periods ended June 26, 2020 and June 28, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

### 6. Shareholders' equity – (continued)

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

For the vested portion of RSUs, the fair value of the liability component at period-end is estimated based on the market price of the Company's common shares. For the unvested portion of RSUs, the fair value of the liability component at period-end is estimated using a Black-Scholes option pricing model with the following assumptions:

	2020	2019
Dividend yield	3.62%	6.17%
Expected volatility	59.00%	35.12%
Risk-free interest rate	0.30%	1.39% to 1.41%
Expected life	2.75 years	3.51 to 5.61 years
Exercise price	\$nil	\$nil

Details of RSUs granted under the Long-term Incentive Plan and outstanding are as follows:

	13-week periods ended		26-week periods ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
	Number of RSUs	Number of RSUs	Number of RSUs	Number of RSUs
Outstanding, beginning of period	24,483	11,172	17,457	271,921
Granted	-	1,692	4,026	3,285
Settled	-	-	-	(262,342)
Outstanding, end of period	24,483	12,864	21,483	12,864

For the 13-week and 26-week periods ended June 26, 2020, stock-based compensation expense (recovery) in relation to RSU's granted under the LTIP was \$(83) and \$(42) respectively (13-week and 26 week periods ended June 28, 2019 - \$212 and \$239 respectively) and was included in selling, general and administration expenses.

### 7. Selling, general and administrative costs

The components of selling, general and administrative costs are as follows:

For the 13- week period ended	For the 13-weeks ended		For the 26-weeks ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Salaries and employee costs	2,953	3,258	5,780	5,850
Professional fees	784	252	1,377	114
Travel and related expenses	113	598	480	1,106
Communications and IT expenses	310	230	637	430
Stock based compensation	25	461	231	629
Other expenses	143	134	294	318
Legal and insurance fees	149	144	297	382
Occupancy costs	34	70	72	111
Total	4,511	5,147	9,168	8,940



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### 8. Finance costs/(income)

	For the 13- week period ended		For the 26- week period ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Interest on revolver loan, term debt and delayed draw loan	3,771	4,132	8,414	8,169
Unrealized fair value loss on derivatives	1,963	1,539	4,998	3,458
Realized gain on derivatives	(915)	(573)	(1,327)	(1,067)
Unrealized (gain)/loss on foreign exchange	411	840	(83)	1,292
Realized loss (gain) on foreign exchange	17	68	236	(15)
Amortization of deferred financing fees	255	173	525	336
Interest on lease liabilities	543	578	1,095	1,150
Other	202	996	735	1,203
Financing costs, net	6,247	7,753	14,593	14,526

### 9. Income taxes

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

	13-week periods ended		26-week periods ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Income tax (expense) recovery at statutory rate - 27% (2019 - 27%)	(3)	570	(3,355)	(1,924)
Increase (decrease) related to:				
Permanent differences and other	8	311	72	268
Entities with different tax rates and foreign rate adjustments	(33)	(4)	(30)	(9)
	(28)	877	(3,313)	(1,665)
Classified as				
Deferred	(28)	877	(3,313)	(1,665)
Income tax expense/(recovery)	(28)	877	(3,313)	(1,665)



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### 10. Earnings per share

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

	For the 13- week period ended		For the 26- week period ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Net profit/(loss) for the period attributable to owners	(1,187)	1,241	(10,022)	(5,451)
Net profit/(loss) per share (basic and diluted)	(0.04)	0.04	(0.30)	(0.16)
Weighted average of number of shares outstanding (thousands)	33,359	33,300	33,357	33,170

For 13-week periods ended June 26, 2020, the Company incurred a net loss such that the potential impacts of dilutive instruments were anti-dilutive. For 13-week periods ended June 28, 2019, the Company has net profit attributable to owners. The potential impacts of dilutive instruments on earning per share is insignificant.

For 26-week periods ended June 26, 2020 and June 28, 2019, the Company incurred net losses attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive.

### 11. Supplemental cash flow information

	13-week periods ended		26-week periods ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Accounts receivable	(501)	(10,917)	(6,921)	237
Inventory	8,742	2,189	6,507	(3,537)
Other current assets	1,935	(370)	3,525	(4,510)
Accounts payable and accrued liabilities	4,642	2,288	13,936	(5,145)
Other current liabilities	(667)	303	(970)	157
Net change in non-cash operating working capital	14,151	(6,507)	16,077	(12,798)

	13-week periods ended		26-week periods ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
PP&E additions during the period	35,988	14,320	60,499	23,708
PP&E additions from prior period paid during the period	-	5,448	11,579	2,354
PP&E additions in accounts payable & other liabilities	(535)	(5,826)	(2,983)	(5,826)
Purchase of PP&E	35,453	13,942	69,095	20,236



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### 12. Financial instruments

#### 12.1 Classification and measurement:

The following table summarizes information regarding the classification and carrying values of the Company's financial instruments:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	June 26, 2020
<b>Financial Assets</b>				
Cash and cash equivalents	19,845	-	-	19,845
Accounts receivable	37,284	-	-	37,385
Derivative financial instruments included in other current assets	-	-	1,447	1,447
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	-	(57,482)	-	(57,482)
Derivative financial instruments included in other long-term liabilities	-	-	(4,075)	(4,075)
Loan facilities	-	(360,900)	-	(360,900)
Lease liabilities	-	(35,534)	-	(35,534)
Other long-term liabilities	-	(2,446)	-	(2,446)

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	December 27, 2019
<b>Financial Assets</b>				
Cash and cash equivalents	11,267	-	-	11,267
Accounts receivable	36,764	-	-	36,764
Receivable against NMTC	12,774	-	-	12,774
Derivative financial instruments included in other current assets	-	-	1,332	1,332
Derivative financial instruments included in other long-term assets	-	-	1,038	1,038
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	-	(51,183)	-	(51,183)
Loan facilities	-	(319,200)	-	(319,200)
Lease liabilities	-	(36,975)	-	(36,975)
NMTC debt	-	(12,774)	-	(12,774)
Other long-term liabilities	-	(2,462)	-	(2,462)



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### 12. Financial instruments - (continued)

#### 12.2 Fair value

The following fair value measurement hierarchy is used for financial instruments that are measured in the Consolidated Statement of Financial Position at fair value:

- Level 1 - quoted process (unadjusted) in active markets for identical assets and liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

Specific valuation techniques used to value financial instruments include:

- For interest rate swaps – the present value of the estimated future cash flows based on observable yield curves
- For foreign currency forwards – present value of future cash flows based on the forward exchange rates at the balance sheet date

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and other liabilities approximates their fair value due to the relatively short-term maturity of these financial instruments. The carrying value of bank debt is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

There were no transfers between levels of the fair value hierarchy in the 26-week period ended June 26, 2020. The following table summarizes the Company's financial instruments measured at fair value at June 26, 2020 and December 27, 2019, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

	Fair value hierarchy level	June 26, 2020	December 27, 2019
Derivative financial instruments assets (liability)			
USD forward contracts	Level 1	\$ 1,447	\$ 1,333
Interest rate swaps	Level 1	(4,075)	1,037
		\$ (2,628)	\$ 2,370

For the 13- week and 26-week period ended June 26, 2020, the Company recognized a gain of \$915 and \$1,327, respectively (13-week and 26-week periods ended June 28, 2019 - \$573 and \$1,067) and an unrealized loss of \$1,963 and \$4,998 respectively (13-week and 26-week periods ended June 28, 2019 - \$1,539 and \$3,458) on its derivative financial instruments in its net profit (loss).

The Company does not designate its foreign exchange contracts or interest rate swaps as hedging instruments under a fair value hedge accounting model. Therefore, a change in foreign exchange rates and interest rates at the reporting date will affect profit or loss.





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### 12. Financial instruments - (continued)

The Company entered into two interest rate contracts which effectively swap floating interest rates to fixed rates on a notional amount of \$50,000 each, totaling \$100,000, effective June 28, 2019, in order to hedge the variability in cash flows attributable to movements in interest rates. The interest rate swaps mature on March 31, 2024.

The outstanding notional amounts of the USD forward contracts and their contractual maturities are as follows:

Particulars	Notional amount	Average forward rate	Less than 1 year	Greater than 1 year	Fair value asset (liability)
<b>As at June 26, 2020</b>					
USD Forward Contracts	13,075	1.2635	13,075	-	1,447
<b>As at December 27, 2019</b>					
USD Forward Contracts	25,975	1.2556	25,800	175	1,333

The contractual maturities of non-derivative financial assets and liabilities are as follows:

At June 26, 2020	Carrying amount	Contractual cash flows	Current	Between 2 and 5 years	More than 5 years
Accounts payable and accrued liabilities	57,482	57,482	57,482	-	-
Accounts receivable	37,284	37,284	37,284	-	-
Cash	19,845	19,845	19,845	-	-
Term loan	278,600	278,600	12,600	266,000	-
Delayed draw loan	82,300	82,300	2,450	79,850	-
Lease liabilities	35,534	43,525	9,312	19,164	15,049

### 13. Contingencies

The Company is involved in various claims associated with its operations. While the outcomes of the proceedings are not determinable, management is of the opinion that the resulting settlements, if any, would not materially affect the financial position of the Company. Should a material loss occur, it would be accounted for when it became likely and reasonably estimable. Otherwise, any losses would be accounted for as a charge to earnings in the period in which the settlement occurred.

Pinnacle maintains several insurance policies, each of which are subject to separate deductibles, sub-limits, and specified criteria that must be met for coverage to be applicable. When the coverage provided by a policy is applicable and recovery of all or a portion of incurred expenses is probable, a receivable will be recorded, and the loss or expense reduced accordingly.

Other receivables include an amount of \$500 (December 27, 2019 - \$1,000) for business interruption insurance recoverable and \$- for property loss (December 27, 2019 - \$5,900) related to the Entwistle incident.



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### 13. Contingencies - Continued

COVID-19 was declared a pandemic in the period and to date has not had a significant impact on the Company's financial position, results of operations and cash flows. Given the significant uncertainties with this pandemic, there can be no guarantee that the Company won't be materially impacted in the future.

### 14. Revenue from contracts with customers

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

	13-week periods ended		26-week periods ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Finished wood pellets	\$ 130,594	\$ 102,238	\$ 238,580	\$ 190,460
Port services	1,652	1,926	3,341	3,331
	<b>\$ 132,246</b>	<b>\$ 104,164</b>	<b>\$ 241,921</b>	<b>\$ 193,791</b>

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

	13-week periods ended		26-week periods ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
Europe	\$ 111,512	\$ 90,397	\$ 207,093	\$ 159,786
Asia	18,190	10,277	29,133	25,206
North America	2,544	3,490	5,695	8,799
	<b>\$ 132,246</b>	<b>\$ 104,164</b>	<b>\$ 241,921</b>	<b>\$ 193,791</b>

### 15. Economic dependence

The Company has certain European customers whose individual revenue represents 10% or greater of the Company's total revenue. For the 26-week period ended June 26, 2020, three customers represented 78% of the Company's total Revenue. For the 13-week period ended June 26, 2020, two customers represented 64% of the Company's total revenue.

The Company's inbound fibre and outbound bulk pellet exports are transported using an integrated logistics supply chain which includes trucking, rail, terminal, and shipping service providers. If alternative sources for these services were required, the Company's ability to service existing bulk off-take contracts and/or the Company's costs could be impacted.