Pinnacle
RENEWABLE ENERGY

Second Quarter Report

For the thirteen and twenty-six weeks ended June 26, 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 August 10, 2020 provides information concerning the financial condition and results of operations for the 13-week and 26-week periods ended June 26, 2020 ("Q2 2020") of Pinnacle Renewable Energy Inc. ("we", "us", "our", the "Company" or "Pinnacle"). This MD&A should be read in conjunction with our unaudited Interim Condensed Consolidated Financial Statements and accompanying notes for Q2 2020, as well as our audited consolidated financial statements and accompanying notes for the 52 week period ended December 27, 2019 ("Fiscal 2019"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and our annual MD&A for Fiscal 2019. This MD&A contains certain non-IFRS measures which, within the non-IFRS Measures section, are discussed, defined and reconciled to figures reporting in the Company's consolidated financial statements.

Basis of Presentation

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

The information in this report is current as of August 10, 2020, which is the date of filing in conjunction with our press release announcing our results for Q2 2020. Disclosure contained in this document is current to August 10, 2020, unless otherwise stated.

Forward-Looking Information

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

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

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

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

OVERVIEW OF SECOND QUARTER, 2020

Revenue was $132.2 million in Q2 2020, compared to $104.2 million in Q2 2019.

We recorded net income of $0.02 million in Q2 2020 compared to net income of $1.5 million in Q2 2019.

Adjusted Gross Margin in Q2 2020 was $20.0 million (15.1% of revenue) compared to $20.3 million (19.5% of revenue) in Q2 2019. (See "Non-IFRS measures" below).

Adjusted EBITDA for Q2 2020 was $16.1 million on revenue of $132.2 million compared to $15.3 million on revenue of $104.1 million in Q2 2019. (See "Non-IFRS measures" below).

Capital expenditures net of non-controlling interests totaled $28.1 million in Q2 2020, including $25.9 million on growth-related projects compared with $4.9 million in Q2 2019.

Net debt ended the quarter at $373.1 million resulting in available liquidity of $187.9 million.

STRATEGIC CONTEXT

The second quarter of 2020 was a significant step in the direction of achieving our key goals of growth, profitability and sustainability of our business. The recovery from the Entwistle incident is now complete. Investments are being made in both production efficiency and flexibility to enhance our resilience to supply disruptions. Investments in new capacity will enable Pinnacle to capture the growth opportunities that are promised in our substantial contract backlog. We continue to diversify both our production base and our international market reach. We fully expect continued growth in revenues and improvement in profit margins based on both expanded capacity and continued attention to costs.

Pinnacle has earned its position in the top tier of the global wood pellet industry through consistent attention to quality, reliability of supply and service to our customers. These priorities will continue to guide our business strategy into the future.

FACTORS IMPACTING SECOND QUARTER, 2020

Record Production and Sales Volumes Contribute Positively to Results

Pellet sales set a new record in Q2 2020 at 620kMT, 21% above the previous mark of 510kMT set in Q1 2020 and 30% above Q2 2019. Included in the current quarter were 23kMT of externally produced pellets purchased under annual contracts and 50kMT of spot purchases. Production in Q2 2020 set new records as well coming in at 518kMT, 14% above Q1 2020 when the previous record was set, and 15% above Q2 2019. The results in the current quarter were achieved despite operational disruptions at the Lavington, Meadowbank and Smithers mills that negatively impacted production by 18kMT. Viewed on a per day basis, production in Q2 2020 came in at 5,694 MT versus 4,967 MT in Q1 2020 and 4,959 MT in Q2 2019. The gains in productivity achieved in Q2 2020 contributed to an 8% reduction in unit production costs compared with Q1 2020 and made a positive impact on the Company's results in the quarter.

Alberta and Alabama Mills Make Significant Contribution

Pinnacle's mills at Entwistle, Alberta and Aliceville, Alabama made significant contributions to the Company's production and shipment volumes in Q2 2020 and to the Company's financial performance in the quarter. At Entwistle, fibre quality improvements associated with the recent destoner project, along with a number of other initiatives, helped to boost pelleter efficiency, building on the gains achieved in the previous quarter. Production at Entwistle was 33% above Q1 2020 and 235% above the same quarter last year. Aliceville also performed significantly better in Q2 2020 as efforts to improve machine centre reliability gained traction. Production at Aliceville increased by 14% versus Q1 2020 and by 37% compared to Q2 2019. Additional gains are expected at both mills as operating programs are fine-tuned.

Entwistle Insurance Proceeds Received; Settlement Discussions Ongoing

A total of $6.0 million in insurance proceeds attributable to Entwistle and recorded in accounts receivable in Q1 2020 was received in Q2 2020. No new amounts have been recorded in Q2 2020 as we continue discussions for final settlement. In Q2 2019 $4.5 million of business interruption insurance recoveries were booked as an offset of production costs.

Adjustments in Procurement Activities Support Operations; Costs Stable

Despite widespread sawmill curtailments in both Western Canada and the US South at the beginning of the quarter, Pinnacle was able to adjust its procurement activities to gain access to the volume and quality of fibre needed to operate without disruption. Sawmill residuals accounted for 74% of the Company's feedstock in Q2 2020 compared with 81% in Q1 2020, and harvest residuals and biologs accounted for 26% versus 19%. Overall fibre costs were flat quarter-over-quarter, reflecting Pinnacle's growing experience in dealing with non-traditional sources of raw material. The Company's investment in fibre inventories, which was built-up in late 2019 and in Q1 2020 to support operations in the event of further reductions in the supply of sawmill residuals, was reduced by 17% in Q2 2020 as sawmill operating rates increased, providing greater comfort in available fibre supply.

PROGRESS ON GROWTH-RELATED CAPITAL PROJECTS

Capital expenditures net of non-controlling interests on growth-related projects amounted to $ 25.9 million in Q2 2020 as the Company continued to drive forward with initiatives to build out and diversify its operating platform. These figures compare to spending on growth-related projects of $4.9 million in Q2 2019.

High Level Construction Advancing; Capital for Rail Infrastructure Authorized

- Construction of the new 200k MT mill at High Level, Alberta continued during Q2 2020 as the ground thaw continued. The 200k MT per year mill will be 50% owned by Pinnacle and 50% owned by Tolko Industries Inc. ("Tolko").
- The project remains on schedule for commissioning in the fourth quarter of 2020 before the start of colder weather conditions.
- We have filled a number of key positions at the mill, including an experienced mill manager.
- Plans for the associated rail infrastructure at High Level were finalized recently, at a projected net cost of $3.3 million which will be split evenly between the Pinnacle and Tolko.
- The total authorized capital spend for the project, including rail costs, is $63.8 million, with Pinnacle's 50% share amounting to $31.9 million. Pinnacle contributed $5.5 million to the project in Q2 2020, bringing total project expenditures to $16.0 million or approximately 50% of budgeted costs.

Demopolis Construction Continues as Expected

- Construction also continued during the quarter on the 360kMT per year mill in Demopolis, Alabama. The mill will be owned and operated by Alabama Pellets LLC, in which Pinnacle has a 70% interest.
- The project is progressing as planned and is on-budget, with commissioning is expected in the second quarter of 2021.
- On July 14, 2020, the Company announced that Alabama Pellets, LLC had signed an agreement with the state of Alabama that provides incentives for job creation relating to the Demopolis mill. These incentives include a tax credit of $0.8 million over 10 years and an investment credit totaling $9.5 million over 10 years. In order to receive the credits, Demopolis must employ a minimum of 45 employees that earn an average hourly wage of $20.
- The total authorized capital spend for the project is $135 million, with Pinnacle's 70% share amounting to $94.6 million. Pinnacle contributed $14.2 million to the project in Q2 2020, bringing Pinnacles share of total project expenditures to $27.1 million or approximately 30% of budgeted costs.

Williams Lake Dryer Upgrade Project Successfully Completed

- During the quarter, the dryer upgrade project at our Williams Lake mill was successfully completed. We invested a total of $2.6 million in the Williams Lake mill in the quarter. The new dryer is currently in its commissioning phase and is expected to achieve run-rate production levels in the third quarter of 2020 ("Q3 2020"), adding more than 60kMT to the mill's capacity on an annualized basis.

Aliceville Phase Two Capital Project Underway

- The Company commenced construction on the Phase 2 Project at its mill in Aliceville, Alabama. This project will add a truck unloading system to the mill's infrastructure and broaden access to additional supplies of sawmill residuals on a go-forward basis, supporting the Company's goal of boosting production volumes at the mill. Pinnacle contributed $0.7 million on the Aliceville project in Q2 2020, bringing total partner's expenditures to approximately $1.0 million or 21% of budget at quarter-end.

Completion of these growth-related capital projects are expected to increase Pinnacle's overall production capacity by almost 20% to 2.9 million MT, and increase the portion located in jurisdictions outside of B.C. to approximately 44%.With a number of small projects currently on hold due to COVID-19 related concerns, Pinnacle's contribution to capital spending during the second half of 2020 is expected to be in the range of $70.0 to $75.0 million.

CREDIT FACILTY AMENDED

On June 26, 2020 Pinnacle reached an agreement with the members of its banking syndicate to modify of the financial covenants to increase covenant headroom in its Senior Credit Facilities (as defined below) until the end of June 2021 and to extend access to the delayed draw credit facility until the end of June 2021. These amendments were put in place out of an abundance of caution and are designed to provide the Company with additional flexibility from both an operating and a capital spending standpoint during the period of uncertainty associated with the COVID-19 pandemic.

OUTLOOK

Customer demand for wood pellets remains strong. Management expects production and shipment volumes to increase in Q3 2020 as the Entwistle mill operates at capacity, the Williams Lake mill works through its commissioning process, and a series of initiatives designed to boost operating rates at other mills are implemented. Warmer weather is expected to support higher production levels as well. Fibre supply is expected to improve in the next few months as sawmill operating rates are maintained. Pinnacle's order backlog remains strong at $6.8 billion MT.

That said, on-going uncertainties associated with COVID-19, including reports of higher positive test results in areas in which we operate or source fibre, have the potential to impact our operations and the availability and cost of feedstock.

Barring a deterioration in the business environment due to COVID-19 or other factors, the construction of the Company's growth-related projects will continue as planned.

FINANCIAL AND OPERATING HIGHLIGHTS

	Unit	Q2 2020 13 weeks	Q2 2019 13 weeks	Q2 2020 26 weeks	Q2 2019 26 weeks
Revenue	$000's	**132,246**	104,164	**241,921**	193,791
Profit before finance costs and other income (expense)	$000's	**7,124**	5,185	**658**	1,530
Net income (loss)	$000's	**17**	1,546	**(9,115)**	(5,460)
Impact of Entwistle Incident	$000's	**-**	532	**1,782**	(1,034)
Net income (loss) (excluding above impact)	$000's	**17**	1,014	**(10,897)**	(4,426)
Net profit (loss) per share attributable to owners					
Basic and diluted earnings/(loss) per share	$/share	**(0.04)**	0.04	**(0.30)**	(0.16)
Adjusted Gross Margin [(1)]	$000's	**19,955**	20,346	**28,949**	30,712
Adjusted Gross Margin per MT [(1)]	$/MT	**32.19**	42.56	**25.62**	34.90
Adjusted Gross Margin Percentage [(1)]	**%**	**15.1%**	19.5%	**12.0%**	15.8%
Adjusted EBITDA [(1)]	$000's	**16,108**	15,280	**20,152**	22,339
Adjusted EBITDA per MT [(1)]	$/MT	**25.98**	31.97	**17.83**	34.61
Adjusted EBITDA Percentage [(1)]	%	**12.2%**	14.7%	**8.3%**	11.5%
Free Cash Flow [(1)]	$000's	**10,122**	6,319	**8,985**	6,910
Annualized Return on Invested Capital[(1)]	**%**	**12.4%**	14.0%	**7.8%**	10.2%
Annualized Cash Flow Return on Assets[(1)]	**%**	**13.6%**	7.6%	**10.0%**	10.0%
				June 26, 2020	**December 27, 2019**
Total Assets	$000's			**661,632**	629,911
Total Debt	$000's			**357,440**	309,588

Operating Highlights		Q2 2020 13 weeks	Q2 2019 13 weeks	Q2 2020 26 weeks	Q2 2019 26 weeks
Industrial wood pellets produced [(2)]	MT('000)	**518**	451	**970**	858
Industrial wood pellets purchased [(3)]	MT('000)	**73**	21	**97**	45
Industrial wood pellets sold	MT('000)	**620**	478	**1,130**	880
				June 26, 2020	**December 27, 2019**
Contracted Backlog [(4)]					
Fiscal 2020 (remainder of Fiscal year)	$ billions			**0.3**	0.4
Fiscal 2021	$ billions			**0.5**	0.5
Fiscal 2022 and thereafter	$ billions			**6.0**	6.0
Total product sales under Contracted Backlog	$ billions			**6.8**	6.9

(1) See "Non-IFRS Measures" for the definition of the items discussed below and as well as reconciliations of non-IFRS measures with the most directly comparable IFRS measure.
(2) Includes MT produced by all facilities managed by Pinnacle, including HPLP.
(3) Includes MT sold in the quarter that were purchased from third parties, excluding HPLP.
(4) We enter into long-term, take-or-pay off-take contracts with large and well capitalized counterparties or their affiliates. "Contracted Backlog" represents the revenue to be recognised under existing contracts assuming deliveries occur as specified in the contracts. As a result of customer preferences or logistics management, there can be movement in the timing of deliveries that may result in revenue being recognised in either a preceding or following interim fiscal period.

RESULTS OF OPERATIONS

Summary of Second Quarter 2020 Financial Performance:

Revenue

Revenue for Q2 2020 totaled $132.2 million, an increase of $28.1 million, or 27.0%, compared to $104.2 million for Q2 2019. The increase is primarily attributable to increased sales volumes of 142kMT or $27.6 million, partially offset by a decrease in revenue per MT. Q2 2020 CIF sales were 6.8% lower than Q2 2019 and accounted for 46.1% of total sales in Q2 2020, compared to 48% in Q1 2019. The Company collects distribution revenue from customers for CIF term sale transactions. As a result of this shift in mix, revenue per MT in Q2 2020 was lower than Q2 2019 despite increases in contract prices year over year.

Production

Production costs were $95.9 million for Q2 2020, an increase of $25.0 million, or 35.2% compared to $70.9 million for Q2 2019. The increase in production costs reflect higher sales volumes (142k MTs, $21.0 million), third party pellet spot purchases at an average cost higher than the cost of Pinnacle produced pellets ($1.6 million) and the Q2 2019 reduction of costs of $1.8 million relating to costs and insurance proceeds received for business interruption relating to the Entwistle Incident.

Distribution

Distribution costs were $14.9 million for Q2 2020 an increase of $1.9 million, or 14.8% compared to $13.0 million for Q2 2019. The increase in distribution costs is the result of increased sales volume, partially offset by a reduction from a lower proportion of CIF contract sales and reduced costs as a higher proportion of shipments went through Pinnacle’s own Westview port.

Selling, general and administration

SG&A expenses were $4.5 million for Q2 2020, a decrease of $0.7 million, or 12.7% compared to $5.1 million for Q2 2019. The decrease was driven by a decrease in travel related expenses and stock-based compensation offset by an increase in professional fees.

Amortization

Amortization expense was $9.8 million for Q2 2020, a decrease of $0.1 million, or 1.3% compared to $9.9 million for Q2 2019.

Finance costs

Finance costs relate primarily to the interest paid on the Company’s debt facilities and gains and losses on foreign exchange and derivative contracts. Gross interest was $3.7 million for Q2 2020 compared to $4.1 million for Q2 2019. The decrease in interest on debt facilities is due to a lower interest rate in Q2 2020 compared to Q2 2019 as well as a drawdown of $28.2 million on the last day of Q2 2020 which did not attract interest during the quarter. Additionally, unrealized foreign exchange losses of $0.4 million were recognized in Q2 2020 compared to $0.8 million in Q2 2019. Other finance costs decreased due to the revaluation of decommissioning liabilities in Q2 2020. The fair value loss on interest rate swaps increased by $0.4 million in Q2 2020 compared to Q2 2019 and realized gains on forward exchange contracts increased by $0.3 million in Q2 2020 compared to Q2 2019.

Other income (expense)

Other expense was $1.1 million for Q2 2020 compared to other income of $5.0 million in Q2 2019. The decrease in other income (expense) from Q2 2019 to Q2 2020 primarily results from the fact that other income for Q2 2019 includes $5.0 million in insurance recoveries for property loss at the Entwistle mill. Other expense for Q2 2020 relates to equity losses in Houston Pellet Limited Partnership and losses on disposal of property plant and equipment.

Summary of Year-to-Date 2020 Financial Performance:

Revenue

Revenue for year-to-date 2020 ("YTD 2020") totaled $241.9 million, an increase of $48.1 million, or 24.8%, compared to $193.8 million for the same period in Q2 2019 ("YTD 2019"). The increase is primarily attributable to higher sales volumes ($55.1 million). In addition, shipping delays due to the CN Rail strike in Q4 2019 resulted in a shift of revenue into Q1 2020 as over 30% of the pellets shipped during Q1 2020 were produced in 2019. Strong production volumes in Q2 2020 further contributed to strong sales volumes. YTD 2020 CIF sales were 4.3% lower than YTD 2019 and accounted for 43.2% of total sales in 2020. This reduction of CIF sales reduced revenue per MT despite increases in contract prices.

Production

Production costs were $182.0 million for YTD 2020, an increase of $44.0 million, or 31.9% compared to $138.0 million for YTD 2019. The increase in production costs reflect higher volume ($39.2 million on the incremental 250k MTs), higher fibre costs in Q1 2020 ($1.4 million) and higher rail costs in Q1 2020 ($0.8 million). Production costs were also impacted by higher cost Q4 inventory sold in Q1 2019. This inventory reflected high fibre costs consumed in Q4 as well as the costs associated with the CN Rail disruptions in Q4 2019. During Q1 2020, we also sold third-party pellets for a net loss of $0.4 million.

Business interruption insurance recoveries of $1.0 million for lost net profit from the Entwistle Incident were recorded in production costs in YTD 2020 compared to $0.3 million of incremental costs relating to the Entwistle Incident in YTD 2019.

Distribution

Distribution costs were $29.4 million for YTD 2020 an increase of $3.6 million, or 14.0% compared to $25.8 million for YTD 2019. The increase in distribution costs is the result of increased sales, as well as higher port charges and demurrage costs resulting from scheduled shipping delays due to the CN Rail disruptions in Q1 2020, partially offset by lower shipping costs as a result of the lower proportion of CIF revenue.

Selling, general and administration

SG&A expenses were $9.1 million for YTD 2020, an increase of $0.2 million, or 2.6% compared to $8.9 million for YTD 2019. The increase was driven by higher professional fees partially offset by a decrease in travel related expenses and stock-based compensation.

Amortization

Amortization expense was $20.5 million for YTD 2020, an increase of $0.9 million, or 5.0% compared to $19.5 million for YTD 2019. The increase was primarily attributable to the amortization of additions to property, plant and equipment related to the Aliceville mill and amortization on new leases for equipment and rail cars in 2020 compared to 2019.

Finance costs

Finance costs relate primarily to the interest paid on the company's debt facilities and gain or losses on foreign exchange and derivative contracts. Gross interest was $8.4 million during YTD 2020 compared to $8.2 million for YTD 2019. The increase in interest on debt facilities is partially due to higher outstanding loan balances as the Company has financed new mills with drawings on debt facilities. Additionally, the unrealized fair value loss on interest rate swaps in YTD 2020 was $5.0 million compared to $3.4 million in YTD 2019 due to a significant decline in interest rates as a result of COVID-19, offset in part by a $1.3 million gain on US foreign exchange forward contracts compared to $1.1 million in YTD 2019 due to the weakening Canadian dollar compared to the US dollar.

Other income (expense)

Other income was $1.3 million for YTD 2020 compared to other income of $5.9 million in YTD 2019. YTD 2019 includes an impairment of $9.4 million relating to the Entwistle fire incident in 2019. This variance is partially offset by a $6.5 million gain on the settlement of a legal claim against a former equipment supplier in 2019 as well as $8.0 million in insurance proceeds recognized in 2019 when compared to $2.5 million in YTD 2020.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS AND CERTAIN PERFORMANCE MEASURES

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

	2020 (4)		2019 (4)				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks	13 Weeks
Financial Highlights								
(In thousands $ except per share amounts)								
Revenue	**132,246**	**109,675**	**91,465**	**92,552**	**104,164**	**89,627**	**103,728**	**87,606**
Costs and expenses								
Production (2)	95,888	86,129	60,334	60,189	70,903	67,121	73,472	57,222
Distribution	14,930	14,561	13,793	14,457	13,005	12,766	13,371	12,360
Selling, general and administration	4,511	4,657	4,747	4,808	5,147	3,793	3,933	5,374
Amortization	9,793	10,794	10,404	10,067	9,924	9,602	7,324	6,719
	125,122	**116,141**	**89,278**	**89,521**	**98,979**	**93,282**	**98,100**	**81,675**
Profit (loss) before finance costs and other (income) expenses	7,124	(6,466)	2,187	3,031	5,185	(3,655)	5,628	5,931
Finance income (expense)	(6,247)	(8,346)	(4,839)	(4,813)	(7,753)	(6,773)	1,828	(4,360)
Other income (expense) (3)	(888)	2,395	(649)	(71)	4,991	880	1,626	399
	(7,135)	(5,951)	(5,488)	(4,884)	(2,762)	(5,893)	3,454	(3,961)
Net profit (loss) before income taxes	**(11)**	**(12,417)**	**(3,301)**	**(1,853)**	**2,423**	**(9,548)**	**9,082**	**1,970**
Income tax recovery (expense)								
Deferred income taxes	28	3,285	246	394	(877)	2,542	(1,643)	(454)
Net profit (loss) attributable to:	**17**	**(9,132)**	**(3,055)**	**(1,459)**	**1,546**	**(7,006)**	**7,439**	**1,516**
Owners of the Company	(1,187)	(8,835)	(3,661)	(1,695)	1,241	(6,692)	7,095	1,184
Non-controlling interests	1,204	(297)	606	236	305	(314)	344	332
Net profit (loss)	**17**	**(9,132)**	**(3,055)**	**(1,459)**	**1,546**	**(7,006)**	**7,439**	**1,516**
Annualized Return on Invested Capital	12.4%	3.1%	8.9%	11.1%	14.0%	6.5%	13.6%	20.3%
Cash Flow Return on Assets	13.6%	6.6%	1.1%	10.5%	7.6%	13.2%	9.6%	11.1%
Net profit (loss) per share attributable to owners - Basic and diluted	**(0.04)**	**(0.26)**	**(0.12)**	**(0.05)**	**0.04**	**(0.20)**	**0.22**	**0.04**
Operating Highlights								
(In thousands MT)								
Industrial wood pellets produced (5)	518	407	442	442	451	407	441	418
Industrial wood pellets purchased (6)	73	52	35	-	-	45	19	19
Industrial wood pellets sold	620	510	419	423	478	402	473	421

Notes:

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

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

(3) In Q1 2019, $9.4 million of asset impairment costs and $3.0 million of insurance recoveries were recognized in relation to the Entwistle Incident. 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 and $2.5 million in Q1 2020.

(4) 2019 and 2020 results include the adoption of IFRS 16 *Leases*, from December 30, 2018, on a prospective basis. Comparative periods for 2018 have not been restated.
(5) Includes MT produced by all facilities managed by Pinnacle, including HPLP.
(6) Includes MT sold in the quarter that were purchased from third parties, excluding HPLP.
(7) At the end of Fiscal 2019, quarterly results for the four the quarter of 2018 and for each of the quarters in 2019 were adjusted to reflect the impact of the finalization of the purchase price allocation for our Aliceville Mill as required by IFRS which increased amortization expense each quarter by less than $0.1 million. In addition, quarterly results for each of the quarters in 2019 were adjusted to correct for an error identified in our inventory flow model in Q4 2019. Although the error identified is not considered material by the Company to each of the quarters, the Company corrected the prior quarters in the annual MD&A as the overall adjustment would have been significant to Q4 2019. The adjustment to net income/(loss) for each of the quarters was $-0.7 million respectively in each of Q1, Q2 and Q3 2019.
(8) The timing of remaining costs relating to the Entwistle restart, recognition of final insurance recoveries, and receipt of cash may not match, which would result in fluctuations in other income, cost of goods sold, and net income from period to period. Given the likely timing mismatch, our results of operations and cash flows in the first and second quarters of 2020, as well as our non-IFRS financial measures, may not be comparable to those for previously reported periods in 2019.

LIQUIDITY

Pinnacle's net debt (long term debt less cash and cash equivalents) at June 26, 2020 was $373.1 million representing an increase of $31.4 million since December 27, 2019.

Increased challenges with B.C. sawmill residual supply as a result of COVID-19 has the potential to reduce our cash flows from operating activities. As a result, we have reduced our dividend to an annual level of $0.15 per common share in order to preserve liquidity and our ability to invest in growth-related projects including the High Level and Demopolis mills.

As at June 26, 2020, the Company had working capital of $20.2 million and available liquidity of $ 188.9 million, based on the full borrowing capacity of $528.6 million under the Senior Credit Facilities.

The primary debt covenants in our credit agreement/credit facilities are Senior Debt to Adjusted EBITDA and the Fixed Charge Coverage Ratio (as those terms are defined in the Senior Credit Facilities). Our Senior Credit Facilities provide for calculation of the debt covenants prior to the application of IFRS 16. As at June 26, 2020 and December 27, 2019, the Company was in compliance with all debt covenants.

Analysis of cash flows

(In thousands $)	**Q2 2020** **13 weeks**	**Q2 2019** **13 weeks**	**Q2 2020** **26 weeks**	**Q2 2019** **26 weeks**
Cash flow from operations before net change in non-cash working capital	22,001	14,583	31,874	31,128
Net change in non-cash operating working capital	14,151	(6,507)	16,077	(12,798)
Financing activities	13,626	7,138	28,998	(6,466)
Investing activities	(32,868)	(13,889)	(68,341)	(20,150)
Other	(113)	(8)	(30)	85
Change in cash	**16,797**	**1,317**	**8,578**	**(8,201)**
Cash and cash equivalents, beginning of year	3,048	8,510	11,267	18,028
Cash and cash equivalents, end of year	**19,845**	**9,827**	**19,845**	**9,827**

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

Cash flow from operations before net change in non-cash working capital was $22.0 million for Q2 2020, an increase of $7.4 million compared to $14.6 million for Q2 2019. This increase is mainly due to the recording of a $6.5 million receivable for insurance proceeds for the Entwistle mill in Q2 2019 compared to $nil in Q2 2020 and improved operating results.

Net change in non-cash working capital

The net change in non-cash operating working capital during Q2 2020 was $14.2 million, an increase of $21.0 million compared to the net change in non-cash operating working capital during Q2 2019. This increase in cash generated from non-cash working capital, was primarily due to a $10.4 million decrease in trade accounts receivable compared to Q2 2019 related to increased shipping at quarter end in Q2 2019, and an increase of $7.0 million for lower inventory held at the end of Q2 2020 compared to Q2 2019 as well as increases in accounts payable and accrued liabilities. The $28.9 million in cash generated from non-cash working capital for YTD 2020, was primarily due to a $10.0M decrease in inventory held at the end of Q2 2020 as well as an increase in accounts payable and accrued liabilities compared to offsetting increases in accounts receivable for YTD 2020.

Financing activities

The $6.5 million increase in cash generated from financing activities in Q2 2020 compared to Q2 2019 was primarily due to $5.8 million investments made by non-controlling interests compared to $nil in Q2 2019. The $35.5 million increase in cash generated from financing activities for YTD 2020 compared to YTD 2019 is due to drawings made on our delayed draw loan as well as lower dividends paid in YTD 2020 when compared to YTD 2019 and greater investment from non-controlling interests in YTD 2020 when compared to YTD 2019.

Investing activities

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

CAPITAL RESOURCES

The following table summarizes the Company's credit facilities (the "Senior Credit Facilities") and availability as of June 26, 2020:

(in thousands $)	**Revolver Loan**	**Term Loan**	**Delayed Draw Loan**	**Total**
Available line of credit and maximum borrowing available	65,000	278,600	185,000	528,000
Less:				
Drawings	-	278,600	82,300	360,900
Unused portion of facility	65,000	-	102,700	167,700
Add:				
Cash and cash equivalents	-	-	-	19,845
Available liquidity at June 26, 2020	65,000	-	102,700	187,945

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

The Senior Credit Facilities are secured by a first-ranking security interest on all present and after-acquired assets of the Company. All the credit facilities require mandatory loan prepayments of principal and interest if certain events occur. Refer to the "Credit Agreement" sub-section under the "Material Contracts" section in the AIF for details of our credit facilities as well as Note 8 of our Interim Condensed Consolidated Financial Statements for Q2 2020.

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

TRANSACTIONS WITH RELATED PARTIES

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

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

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

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

(in thousands $)	Carrying Amount	Contractual Cash Flows	Current	Between 2 and 5 Years	More Than 5 Years
Non derivative financial liabilities					
Accounts payable and accrued liabilities	57,482	57,482	57,482	-	-
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

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 17 to the Interim Condensed Consolidated Financial Statements for outstanding notional amounts of the US dollar forward contracts and their contractual maturities.

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

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

Interest rate

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

SHARE CAPITAL

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

Current Share Information

As of August 10, 2020, we had 33,359,570 common shares issued and outstanding and no preferred shares issued and outstanding. As of August 10, 2020, an aggregate of 2,096,012 options to acquire common shares are outstanding and 21,483 restricted share units entitling the holder to receive common shares are outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”) – Material Weakness

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

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

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

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

Limitations of Controls and Procedures

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

Changes in ICFR

Other than the material weakness identified and related changes to internal controls as discussed above relating to controls over complex accounting including derivatives, there have been no changes to ICFR in the 13-week and 26-week periods ended June 26, 2020.

RISK AND UNCERTAINTIES

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

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

Critical Accounting Estimates and Judgments

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

Recently Adopted Significant Accounting Standards

No new significant accounting standards were adopted in Q2 2020.

NON-IFRS MEASURES

This MD&A makes reference to certain non-IFRS measures. These measures are not recognised measures under IFRS, and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation.

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

Adjusted Gross Margin Percentage

(In thousands $ except per MT amounts)	Q2 2020 13 weeks	Q2 2019 13 weeks	Q2 2020 26 weeks	Q2 2019 26 weeks
Operating profit/(loss)	**7,124**	5,185	**658**	1,530
Selling, general and administration	**4,511**	5,147	**9,168**	8,940
Amortization	**9,793**	9,924	**20,587**	19,526
Equity earnings in HPLP	**(269)**	395	**(557)**	707
Non-controlling interests	**(1,204)**	(305)	**(907)**	9
Adjusted Gross Margin	**19,955**	20,346	**28,949**	30,712
Adjusted Gross Margin per MT	**32.19**	42.56	**25.62**	34.90
Adjusted Gross Margin Percentage	**15.1%**	19.5%	**12.0%**	15.8%
Entwistle Incident	**-**	1,815	**494**	(285)
Adjusted Gross Margin (excluding above impact)	**19,955**	18,531	**28,455**	30,997

Adjusted EBITDA	**Q2 2020** **13 weeks**	**Q2 2019** **13 weeks**	**Q2 2020** **26 weeks**	**Q2 2019** **26 weeks**
Net loss	**17**	1,546	**(9,115)**	(5,460)
Income tax expense (recovery)	**(28)**	877	**(3,313)**	(1,665)
Finance costs (1)	**7,430**	8,087	**15,769**	14,709
Amortization of equipment and intangible assets (2)	**9,185**	9,475	**19,293**	18,579
EBITDA	**16,604**	19,985	**22,634**	26,163
EBITDA Adjustments				
Stock-based compensation expense (recovery)	**25**	461	**230**	629
Loss on disposal of PP&E and impairment (3)	**686**	67	**698**	9,792
Insurance recovery on Entwistle Incident		(5,000)	**(2,500)**	(8,000)
Gain on settlement of legal claim			-	(6,463)
Other items (4)	**(1,207)**	(233)	**(910)**	218
Total Adjustments	**(496)**	(4,705)	**(2,482)**	(3,824)
Adjusted EBITDA	**16,108**	15,280	**20,152**	22,339
Adjusted EBITDA per MT	**25.98**	31.97	**17.83**	34.61
Entwistle Incident	-	729	**(59)**	(1,417)
Adjusted EBITDA (excluding above impact)	**16,108**	14,551	**20,211**	23,756

Free Cash Flow				
Adjusted EBITDA	**16,108**	15,280	**20,152**	22,339
Maintenance capital expenditures (5)	**(2,215)**	(4,829)	**(2,753)**	(5,260)
Interest and finance costs, net	**(3,771)**	(4,132)	**(8,414)**	(8,169)
Mandatory amortization (6)	-	-	-	(2,000)
Free Cash Flow	**10,122**	6,319	**8,985**	6,910
Impact of Entwistle Incident	-	729	**(59)**	(1,417)
Free Cash Flow (excluding above impact)	**10,122**	5,590	**9,044**	8,327

Annualized Return on Invested Capital	**Q2 2020** **13 weeks**	**Q2 2019** **13 weeks**	**Q2 2020** **26 weeks**	**Q2 2019** **26 weeks**
Adjusted EBITDA	**16,108**	15,280	**20,152**	22,339
Invested Capital - Beginning of Period	**529,458**	429,747	**504,975**	433,446
Invested Capital - End of Period	**521,275**	441,901	**521,275**	441,901
Average Invested Capital	**525,367**	435,824	**513,125**	437,674
Adjusted EBITDA divided by average invested Capital	**3.1%**	3.5%	**3.9%**	5.1%
Annualization Factor	**4**	4	**2**	2
Annualized Return on Invested Capital	**12.4%**	14.0%	**7.8%**	10.2%

Annualized Cash Flow Return on Assets	Q2 2020 13 weeks	Q2 2019 13 weeks	Q2 2020 26 weeks	Q2 2019 26 weeks
Long term assets	**556,429**	525,831	**556,429**	525,831
Non-interest-bearing working capital	**24,284**	45,320	**24,284**	45,320
Total assets	**580,713**	571,151	**580,713**	571,151
Average assets during the period	**580,836**	518,494	**580,836**	518,494
Cash flow from operations less maintenance capital expenditure	**19,786**	9,754	**29,121**	25,868
Cash flow from Operations divided by average assets	**3.4%**	1.9%	**5.0%**	5.0%
Annualization Factor	**4**	4	**2**	2
Annualized Cash Flow Return on Assets	**13.6%**	7.6%	**10.0%**	10.0%

Notes:

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

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

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

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

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

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

Additional Information

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