

Third quarter of Fiscal 2020

For the 13-week and 39-week periods
ended September 25, 2020 and
September 27, 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	September 25, 2020	December 27, 2019
ASSETS			
Current assets			
Cash and cash equivalents		21,762	11,267
Restricted cash		2,713	-
Accounts receivable		53,936	36,764
Inventory	3	38,853	46,938
Receivable against NMTC debt		-	12,774
Other current assets		6,233	11,436
Total current assets		123,497	119,179
Property, plant and equipment			
Goodwill and intangible assets	4	470,864	399,181
Investment in Houston Pellet Limited Partnership		98,829	100,191
Other long-term assets		7,324	7,548
Other long-term assets		20	1,364
Deferred income taxes	9	2,856	2,448
Total assets		703,390	629,911
LIABILITIES AND EQUITY			
Current liabilities			
Revolver loan	5	-	19,200
Accounts payable and accrued liabilities		69,610	51,183
Current portion of long-term debt	5	17,236	3,128
Current portion of NMTC debt		-	12,774
Current portion of lease liabilities		7,716	7,424
Other current liabilities		1,132	1,786
Total current liabilities		95,694	95,495
Long-term debt			
Other long-term liabilities	5	357,560	293,686
Lease liabilities		6,548	2,462
Total liabilities		488,404	421,194
EQUITY			
Shareholders' equity			
Common shares	6	278,076	277,619
Contributed surplus		4,335	4,145
Accumulated other comprehensive loss		(1,024)	(1,320)
Deficit		(127,773)	(117,191)
Total equity attributable to owners of the Company		153,614	163,253
Non-controlling interest		61,372	45,464
Total equity		214,986	208,717
Total liabilities and equity		703,390	629,911

Contingencies (note 13)

See accompanying notes to the interim condensed 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 Comprehensive Income/(Loss)
 (Expressed in thousands of Canadian dollars unless otherwise stated)
 (Unaudited)

	Note	13-week periods ended		39-week periods ended	
		September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Revenue	14	131,674	92,552	373,594	286,343
Costs and expenses					
Production		83,500	60,189	265,517	198,213
Distribution		15,970	14,457	45,462	40,228
Selling, general and administration	7	5,342	4,808	14,511	13,748
Amortization of equipment and intangible assets		11,453	10,067	32,040	29,593
		116,265	89,521	357,530	281,782
Operating income		15,409	3,031	16,064	4,561
Other income/(expense)					
Equity earnings/(loss) in Houston Pellet Limited Partnership		334	181	(223)	888
Gain/(loss) on disposal of property, plant and equipment		149	(188)	(727)	(285)
Impairment of Entwistle plant		-	-	-	(9,417)
Impairment of Intangibles		-	-	-	(278)
Insurance recovery for property loss at Entwistle plant		1,143	-	3,643	8,000
Finance costs	8	(5,965)	(4,813)	(20,558)	(19,339)
Other (expense)/income		(425)	(64)	15	6,892
		(4,764)	(4,884)	(17,850)	(13,539)
Net profit/(loss) before income taxes		10,645	(1,853)	(1,786)	(8,978)
Income tax (expense)/recovery					
Deferred	9	(2,905)	394	409	2,059
		(2,905)	394	409	2,059
Net profit/(loss)		7,740	(1,459)	(1,377)	(6,919)
Net profit/(loss) attributable to:					
Owners of the Company		6,946	(1,695)	(3,076)	(7,146)
Non-controlling interests		794	236	1,699	227
		7,740	(1,459)	(1,377)	(6,919)
Net profit/(loss) per share attributable to owners (basic and diluted):	10	0.21	(0.05)	(0.09)	(0.21)
Weighted average of number of shares outstanding (thousands):	10	33,357	33,307	33,358	33,220

See accompanying notes to the interim condensed consolidated financial statements



PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Statements of Comprehensive Income/(Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Net profit/(loss)	7,740	(1,459)	(1,377)	(6,919)
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax	(2,297)	754	423	(493)
Comprehensive income/(loss) for the period	5,443	(705)	(954)	(7,412)
Comprehensive income/(loss) attributable to:				
Owners of the Company	5,338	(1,169)	(2,780)	(8,002)
Non-controlling interests	105	464	1,826	590
	5,443	(705)	(954)	(7,412)

See accompanying notes to the interim condensed consolidated financial statements



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
Balance, December 28, 2018	33,003,713	273,966	3,556	-	(86,423)	39,699	230,798
Net loss for the period	-	-	-	-	(7,146)	227	(6,919)
Stock options exercised during the period	41,258	458	(190)	-	-	-	268
RSUs settled during the period	263,545	3,085	-	-	-	-	3,085
Stock-based compensation	-	-	623	-	-	-	623
Dividends declared during the period	-	-	-	-	(14,942)	-	(14,942)
Reversal of excess dividend accrual	-	-	-	-	(23)	-	(23)
Foreign exchange translation of foreign operations, net of tax	-	-	-	(842)	-	349	(493)
Distribution to non-controlling interests	-	-	-	-	-	(725)	(725)
Investment of non-controlling interest	-	-	-	-	-	2,016	2,016
Balance, September 27, 2019	33,308,516	277,509	3,989	(842)	(108,534)	41,566	213,688
Balance, December 27, 2019	33,318,352	277,619	4,145	(1,320)	(117,191)	45,464	208,717
Net (loss)/profit for the period	-	-	-	-	(3,076)	1,699	(1,377)
Stock options exercised during the period (note 6)	41,218	457	(190)	-	-	-	267
Stock-based compensation (note 6)	-	-	380	-	-	-	380
Dividends declared during the period (note 6)	-	-	-	-	(7,506)	-	(7,506)
Foreign exchange translation of foreign operations, net of tax	-	-	-	296	-	127	423
Distribution to non-controlling interests	-	-	-	-	-	(362)	(362)
Investment from non-controlling interests	-	-	-	-	-	14,444	14,444
Balance, September 25, 2020	33,359,570	278,076	4,335	(1,024)	(127,773)	61,372	214,986

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)

		13-week periods ended		39-week periods ended	
	Note	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Cash provided by (used in)					
Operating activities					
Net profit/(loss)		7,740	(1,459)	(1,377)	(6,919)
Financing costs, net	8	5,965	4,813	20,558	19,339
Distributions from Houston Pellet Limited Partnership		-	-	-	2,400
Insurance received for business interruption at Entwistle plant	13	-	4,500	6,400	4,500
Realized gain on derivatives and foreign exchange	8	510	499	1,631	1,496
Items not involving cash:					
Amortization of equipment and intangible assets		11,453	10,067	32,040	29,593
Equity (earnings)/loss in Houston Pellet Limited Partnership		(334)	(181)	223	(888)
(Gain)/loss on disposal of equipment		(149)	188	727	285
Stock-based compensation	6	173	255	404	884
Inventory write (up)/down	3	(92)	677	3,346	1,267
Impairment of Entwistle plant		-	-	-	9,417
Impairment of intangible assets		-	-	-	278
Insurance recoverable recorded in income for Entwistle plant	13	(3,759)	(4,000)	(7,259)	(16,500)
Deferred income tax expense/(recovery)	9	2,905	(394)	(409)	(2,059)
Cash flow from operating activities		24,412	14,965	56,284	43,093
Net change in non-cash operating working capital	11	(18,453)	(6,216)	(2,373)	(19,014)
		5,959	8,749	53,911	24,079
Financing activities					
Drawings on revolver loan		74,200	12,000	197,200	12,000
Repayment of revolver loan		(74,200)	-	(216,400)	(18,450)
Payment of finance leases		(2,333)	(2,648)	(7,372)	(7,363)
Drawings on term debt		-	-	-	277,973
Repayment of term debt		(2,800)	-	(4,200)	(194,000)
Drawings on delayed draw loan		19,900	-	82,200	(49,760)
Proceeds from exercise of stock options		-	47	243	268
Dividends paid during the period		(1,251)	(4,996)	(7,506)	(14,942)
Investment from non-controlling interest		6,834	666	14,444	2,016
Distributions to non-controlling interest		-	(175)	(362)	(725)
Finance costs paid	8	(4,681)	(4,082)	(13,581)	(12,671)
		15,669	812	44,666	(5,654)
Investing activities					
Insurance recovery for property loss at Entwistle plant	13	-	5,000	3,500	8,000
Decrease/(increase) in restricted cash		57	-	(2,713)	-
Purchase of property, plant and equipment	11	(19,942)	(16,113)	(89,037)	(36,349)
Proceeds from sale of property, plant and equipment		88	70	112	156
		(19,797)	(11,043)	(88,138)	(28,193)
Foreign exchange gain/(loss) on cash held in foreign currency		86	(10)	56	75
Increase/(decrease) in cash and cash equivalents		1,917	(1,492)	10,495	(9,693)
Cash and cash equivalents, beginning of the period		19,845	9,827	11,267	18,028
Cash and cash equivalents, end of the period		21,762	8,335	21,762	8,335

See accompanying notes to the interim condensed consolidated financial statements



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 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 November 9, 2020.

Certain prior period balances have been reclassified to conform to current period presentation. As previously disclosed, we have restated certain amounts related to the finalization of Aliceville acquisition that occurred in Q4 2018 in accordance with IFRS 3 (refer to note 19 in Q4 2019) and quarterly adjustments related to inventory (refer to Management Discussion and Analysis in 2019 Annual Report).

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 condensed consolidated 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 39-week periods ended September 25, 2020 and are consistent with Note 3 of the audited consolidated financial statements for the year ended December 27, 2019.



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

3. Inventory

As at	September 25, 2020	December 27, 2019
Wood pellets	13,823	23,068
Fibre	14,568	14,159
Supplies and spare parts	10,462	9,711
	38,853	46,938

The provision related to wood pellets as at September 25, 2020 was \$102 (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 \$259 (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
Balance, December 27, 2019	76,839	256,449	29,442	36,451	399,181
Reclassification to ROU assets	-	5	-	(5)	-
Additions	-	-	95,934	7,085	103,019
Amortization	(3,831)	(20,004)	-	(7,092)	(30,927)
Disposals and retirements	-	(768)	-	(1,057)	(1,825)
Exchange rate movement	91	1,150	174	1	1,416
Transfer from construction-in-progress	5,685	20,293	(25,978)	-	-
Balance, September 25, 2020	78,784	257,125	99,572	35,383	470,864
Cost	108,965	401,682	99,572	50,525	660,744
Accumulated amortization	(30,181)	(144,557)	-	(15,142)	(189,880)
Balance, September 25, 2020	78,784	257,125	99,572	35,383	470,864

At September 25, 2020, PP&E includes \$81,682 (December 27, 2019 - \$11,914) related to the construction-in-progress at Demopolis and High Level.

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 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

5. Long-term debt

As at	September 25, 2020	December 27, 2019
Revolver loan	-	19,200
Term loan	275,800	280,000
Delayed draw	102,200	20,000
Deferred financing costs	(3,204)	(3,186)
	374,796	316,014
Less:		
Revolver loan - current portion	-	(19,200)
Term loan - current portion	(14,000)	(4,200)
Delayed draw - current portion	(4,530)	-
Deferred financing costs - current portion	1,294	1,072
	357,560	293,686

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 the introduction of covenant relief 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 3.00% and 4.00%, respectively.

At September 25, 2020, the \$275,800 term loan was in a CAD BA loan at 5.00% (December 27, 2019: CAD BA loan at 5.45%) and the \$102,200 delayed draw was in a CAD Prime loan at 5.95% (December 27, 2019: CAD Prime loan at 6.95%).

At September 25, 2020, the Company had issued letters of credit totaling \$1,222 (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. Adjusted EBITDA as defined in our credit agreement is different than Adjusted EBITDA as presented in our Management's Discussion & Analysis as it includes adjustments to reflect run-rate EBITDA at facilities in the construction and commissioning phase. 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. As at September 25, 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 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

6. Shareholders' equity

As at September 25, 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.

On September 4, 2020, the Company paid a cash dividend of \$0.0375 per common share to the shareholders of record as at August 20, 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				39-week periods ended			
	September 25, 2020		September 27, 2019		September 25, 2020		September 27, 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	-	-	(7,222)	6.48	(41,218)	6.48	(41,258)	6.48
Outstanding, end of period	1,502,179	\$ 8.23	1,553,233	\$ 8.17	1,502,179	\$ 8.23	1,553,233	\$ 8.17

For the 13-week and 39-week periods ended September 25, 2020, a total of \$40 and \$133 in stock-based compensation was recognized in relation to the Legacy Plan (13-week and 39-week periods ended September 27, 2019 - \$73 and \$275, 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 39-week periods ended September 25, 2020 and September 27, 2019

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(Unaudited)

6. Shareholders' equity (continued)

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

i. Options

For the 13-week and 39-week periods ended September 25, 2020, the Company granted nil and 3,000 options, respectively (13-week and 39-week periods ended September 27, 2019 – 23,500 and 445,500), 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%	1.17% to 1.87%
Expected life	10 years from grant date	10 years from grant date
Exercise price	\$8.58	\$ 9.45 to \$ 11.78

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

	13-week periods ended				39-week periods ended			
	September 25, 2020		September 27, 2019		September 25, 2020		September 27, 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	593,833	\$ 10.85	572,000	\$ 10.89	595,500	\$ 10.85	150,000	\$ 14.53
Granted	-	-	23,500	10.35	3,000	9.21	445,500	9.64
Forfeited/cancelled/expired	-	-	-	-	(4,667)	9.56	-	-
Outstanding, end of period	593,833	\$ 10.85	595,500	\$ 10.87	593,833	\$ 10.85	595,500	\$ 10.87

For the 13-week and 39-week periods ended September 25, 2020, a total of \$67 and \$247 of stock-based compensation expense in relation to options granted under the LTIP was included in selling, general and administration expenses, (13-week and 39-week periods ended September 27, 2019 - \$129 and \$349, respectively).

ii. Restricted share units

During the 13-week and 39-week periods ended September 25, 2020, the Company granted 120,885 ("Q3 2020 RSUs") and 124,911 RSUs, respectively. During the 13-week and 39-week periods ended September 27, 2019, the Company granted 1,929 and 5,214 RSUs, respectively. The Q3 2020 RSUs will be settled on December 31, 2022 for all participants. All of the other RSUs will be settled: no later than December 31 of the calendar which is three years from the vesting date for non-U.S. participants; and no later than March 15th of the year following the year in which the vesting date occurs for U.S. participants.



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

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(Unaudited)

6. Shareholders' equity – (continued)

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.

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	2.49%	5.46%
Expected volatility	62.32%	36.89%
Risk-free interest rate	0.25%	1.38% to 1.49%
Expected life	2.26 to 2.88 years	3.26 to 6.26 years
Exercise price	\$nil	\$nil

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

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
	Number of RSUs	Number of RSUs	Number of RSUs	Number of RSUs
Outstanding, beginning of period	21,483	12,864	17,457	271,921
Granted	120,885	1,929	124,911	5,214
Settled	-	(1,203)	-	(263,545)
Outstanding, end of period	142,368	13,590	142,368	13,590

For the 13-week and 39-week periods ended September 25, 2020, stock-based compensation expense in relation to RSU's granted under the LTIP was \$66 and \$24 respectively (13-week and 39-week periods ended September 27, 2019 - \$53 and \$260, 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-weeks ended		For the 26-weeks ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Salaries and employee costs	3,820	2,689	9,601	8,539
Professional fees	701	920	2,078	1,034
Communications and IT expenses	253	184	890	614
Legal and insurance fees	211	143	508	525
Stock based compensation	173	255	404	884
Travel and related expenses	68	445	547	1,551
Occupancy costs/(recovery)	30	(6)	102	104
Other expenses	86	178	381	497
Total	5,342	4,808	14,511	13,748



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

8. Finance costs/(income)

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Interest on revolver, term debt and delayed draw loan	3,886	3,741	12,262	11,910
Bank charges and fees	795	341	1,319	761
Realized (gain) loss on derivatives	(497)	(419)	(1,825)	(1,486)
Realized (gain) loss on foreign exchange	(13)	(80)	194	(10)
Interest on lease liabilities	503	593	1,851	1,743
Total cash portion of finance costs	4,674	4,176	13,801	12,918
Interest on revolver, term debt and delayed draw loan	94	484	94	484
Fair value loss (gain) on derivatives	872	(282)	5,871	3,176
Unrealized loss (gain) on foreign exchange	189	(822)	131	1,168
Amortization of deferred financing fees	277	874	802	1,210
Bank charges and fees	(141)	383	(141)	383
Total non-cash portion of finance costs	1,291	637	6,757	6,421
Finance costs, net	5,965	4,813	20,558	19,339

9. Income taxes

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

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Income tax expense/(recovery) at statutory rate - 27% (2019 - 27%)	2,874	(500)	(482)	(2,424)
Increase (decrease) related to:				
Permanent differences and other	50	114	122	382
Entities with different tax rates and foreign rate adjustments	(19)	(8)	(49)	(17)
	2,905	(394)	(409)	(2,059)
Classified as				
Deferred	2,905	(394)	(409)	(2,059)
Income tax expense/(recovery)	2,905	(394)	(409)	(2,059)



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

10. Earnings per share

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

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 25, 2020	September 27, 2019	September 27, 2019
Net profit/(loss) for the period attributable to owners	6,946	(1,695)	(3,076)	(7,146)
Net profit/(loss) per share (basic and diluted)	0.21	(0.05)	(0.09)	(0.21)
Weighted average of number of shares outstanding (thousands)	33,357	33,307	33,358	33,220

For 13-week periods ended September 25, 2020, the Company incurred a net profit attributable to owners. The potential impacts of dilutive instruments on earnings per share is insignificant. For 13-week periods ended September 27, 2019, the Company has net losses attributable to owners, such that the potential impacts to dilutive instruments were anti-dilutive.

For 39-week periods ended September 25, 2020 and September 27, 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

The following table details the changes in assets and liabilities from operating activities:

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Accounts receivable	(12,892)	7,720	(19,813)	7,957
Inventory	(1,768)	(10,998)	4,739	(16,029)
Other assets	1,678	(35)	5,203	(4,545)
Accounts payable and accrued liabilities	(5,780)	(3,263)	8,158	(6,914)
Other current liabilities	309	360	(660)	517
Net change in non-cash operating working capital	(18,453)	(6,216)	(2,373)	(19,014)

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
PP&E additions during the period	33,812	19,002	95,934	42,710
PP&E additions from prior period paid during the period	2,480	5,826	9,453	2,354
PP&E additions in accounts payable & other liabilities	(16,350)	(8,715)	(16,350)	(8,715)
Purchase of PP&E	19,942	16,113	89,037	36,349



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

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	September 25, 2020
Financial Assets				
Cash and cash equivalents	21,762			21,762
Accounts receivable	53,936			53,936
Derivative financial instruments included in other assets			543	543
Financial Liabilities				
Accounts payable and accrued liabilities		(69,610)		(69,610)
Derivative financial instruments included in other long-term liabilities			(4,043)	(4,043)
Loan facilities		(374,796)		(374,796)
Lease liabilities		(36,318)		(36,318)
Other long-term liabilities		(2,505)		(2,505)
Financial Assets				
	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	December 27, 2019
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 assets			1,332	1,332
Derivative financial instruments included in other long-term assets			1,038	1,038
Financial Liabilities				
Accounts payable and accrued liabilities		(51,183)		(51,183)
Loan facilities		(316,014)		(316,014)
Lease liabilities		(36,975)		(36,975)
NMTC debt		(12,774)		(12,774)
Other long-term liabilities		(2,462)		(2,462)



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

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 39-week period ended September 25, 2020. The following table summarizes the Company's financial instruments measured at fair value at September 25, 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	September 25, 2020	December 27, 2019
Derivative financial instruments (liability)/asset			
USD forward contracts	Level 1	543	1,333
Interest rate swaps	Level 1	(4,043)	1,037
		(3,500)	2,370

For the 13- week and 39-week period ended September 25, 2020, the Company recognized a gain of \$497 and \$1,825 respectively (13-week and 26-week periods ended September 27, 2019 - \$419 and \$1,486) and an unrealized gain/(loss) of \$(872) and \$(5,871) respectively (13-week and 26-week periods ended September 27, 2019 - \$282 and \$(3,176)) 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.

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.



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

12. Financial instruments - (continued)

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
As at September 25, 2020					
USD forward contracts	6,895	1.3385	6,895	-	543
As at December 27, 2019					
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:

As at September 25, 2020	Carrying Amount	Contractual cash flows	Current	Between 2 and 5 years	More than 5 years
Accounts payable and accrued liabilities	69,610	69,610	69,610	-	-
Accounts receivable	53,936	53,936	53,936	-	-
Cash	21,762	21,762	21,762	-	-
Term Loan	275,800	275,800	14,000	261,800	-
Delayed draw loan	102,200	102,200	4,530	97,670	-
Lease liability	36,318	45,680	9,832	21,074	14,774

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 includes an amount of \$1,143 as of September 25, 2020 (December 27, 2019 - \$1,000) for property loss and \$3,116 for business interruption insurance recoverable (December 27, 2019 - \$5,900) related to the Entwistle incident. \$2,616 of business interruption insurance recoveries were booked as an offset of production costs in Q3 2020, and \$3,616 for YTD 2020 (\$4,000 - Q3 2019 and \$8,500 - YTD 2019). \$1,143 of capital cost recoveries were booked as other income in Q3 2020, and \$3,643 for YTD 2020 (\$nil - Q3 2019 and \$8,000 - YTD 2019).

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.



PINNACLE RENEWABLE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the 13-week period and 39-week periods ended September 25, 2020 and September 27, 2019

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

14. Revenue from contracts with customers

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

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Finished wood pellets	130,033	90,651	368,613	281,111
Port services	1,641	1,901	4,981	5,232
	131,674	92,552	373,594	286,343

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

	13-week periods ended		39-week periods ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Europe	106,843	77,904	313,936	237,690
Asia	22,331	11,971	51,465	37,177
North America	2,500	2,677	8,193	11,476
	131,674	92,552	373,594	286,343

15. Economic dependence

The Company has certain European customers whose individual revenue represents 10% or greater of the Company's total revenue. For the 39-week period ended September 25, 2020, four customers represented 82% of the Company's total Revenue. For the 13-week period ended September 25, 2020, three customers represented 71% 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.