

First Quarter of Fiscal 2018

For the 13-week periods ended  
March 30, 2018 and March 31, 2017

# Interim Condensed Consolidated Financial Statements



**Pinnacle.**  
RENEWABLE HOLDINGS INC.

**PINNACLE RENEWABLE HOLDINGS INC.**

Interim Condensed Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

As at	Note	March 30, 2018	December 29, 2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 32,525	\$ 18,908
Accounts receivable	2	23,493	41,253
Inventory	3	15,953	17,709
Other current assets		3,373	3,392
		<b>75,344</b>	<b>81,262</b>
Property, plant and equipment	4	255,849	238,196
Investment in Houston Pellet Limited Partnership	5	9,212	8,916
Other long-term assets		930	51
Deferred income taxes		4,443	-
Goodwill and intangible assets		104,477	105,220
Total assets		\$ 450,255	\$ 433,645
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Revolver loan	6	\$ -	\$ 22,000
Accounts payable and accrued liabilities		38,282	35,653
Current portion of term debt	6	8,000	6,000
Other current liabilities		8,542	15,977
		<b>54,824</b>	<b>79,630</b>
Term debt	6	188,950	190,813
Shareholders' debentures payable	7	-	88,881
Common and preferred shares classified as liabilities	8	-	25,992
Other long-term liabilities		3,936	3,457
Deferred income taxes		-	9,668
		<b>247,710</b>	<b>398,441</b>
Shareholders' Equity			
Common shares	9	272,928	29,500
Preferred shares		-	28,005
Contributed surplus		3,324	4,332
Equity component of convertible debentures		-	35,213
Deficit		(88,052)	(75,419)
Total equity attributable to owners of the Company		188,200	21,631
Non-controlling interest	10	14,345	13,573
Total equity		<b>202,545</b>	<b>35,204</b>
Total liabilities and shareholders' equity		\$ 450,255	\$ 433,645

Contingencies (note 18)

See accompanying notes to the interim condensed consolidated financial statements

APPROVED BY THE BOARD

s/Gregory Baylin  
Director, Gregory Baylin

s/Hugh MacDiarmid  
Director, Hugh MacDiarmid

**PINNACLE RENEWABLE HOLDINGS INC.**

Interim Condensed Consolidated Statements of Profit (Loss) and Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

	Note	13-week periods ended	
		March 30, 2018	March 31, 2017
Revenue	20	\$ 71,022	\$ 67,847
Costs and expenses			
Production		48,520	44,546
Distribution		8,030	9,060
Selling, general and administration		9,217	3,206
Amortization of equipment and intangible assets		5,358	5,604
		<b>71,125</b>	<b>62,416</b>
Profit (loss) before undernoted items		<b>(103)</b>	5,431
Equity earnings in Houston Pellet Limited Partnership	5	296	317
Loss on disposal of property, plant and equipment		(141)	(59)
Gain on conversion of Class B and D common shares	8	3,563	-
Loss on conversion of debentures into shares	7	(21,881)	-
Finance costs excluding shareholder debentures	12	(382)	(3,094)
Finance costs on shareholder debentures	12	-	(2,733)
Other income (expense)		227	245
Plant impairment loss and curtailment costs		(47)	(496)
		<b>(18,365)</b>	<b>(5,820)</b>
Net loss before income taxes		<b>(18,468)</b>	(389)
Income tax recovery			
Current		-	-
Deferred	13	(5,694)	(104)
		<b>(5,694)</b>	<b>(104)</b>
Net loss and comprehensive loss for the period		\$ <b>(12,774)</b>	\$ (285)
Net loss and comprehensive loss attributable to:			
Owners of the Company		\$ <b>(12,633)</b>	\$ (224)
Non-controlling interests		<b>(141)</b>	(61)
		\$ <b>(12,774)</b>	\$ (285)
Net loss per share attributable to owners (Basic and diluted):	14	\$ <b>(0.58)</b>	\$ (0.08)
Weighted average of number of shares outstanding (thousands):		<b>22,037</b>	6,881

See accompanying notes to the interim condensed consolidated financial statements

**PINNACLE RENEWABLE HOLDINGS INC.**

Interim Condensed Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

	Common Shares	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures - Equity Component	Deficit	Non- controlling Interest	Total Equity
Balance, December 30, 2016	\$ -	\$ 29,500	\$ 28,005	\$ 4,095	\$ 35,213	\$ (70,182)	\$ 11,320	\$ 37,951
Net profit (loss) and comprehensive income (loss) for the period	-	-	-	-	-	(224)	(61)	(285)
Stock-based compensation (note 11)	-	-	-	22	-	-	-	22
Balance, March 31, 2017	\$ -	\$ 29,500	\$ 28,005	\$ 4,117	\$ 35,213	\$ (70,406)	\$ 11,259	\$ 37,688
<b>Balance, December 29, 2017</b>	<b>\$ -</b>	<b>\$ 29,500</b>	<b>\$ 28,005</b>	<b>\$ 4,332</b>	<b>\$ 35,213</b>	<b>\$ (75,419)</b>	<b>\$ 13,573</b>	<b>\$ 35,204</b>
Net profit (loss) and comprehensive income (loss) for the period	-	-	-	-	-	(12,633)	(141)	(12,774)
Share exchange at Initial Public Offering	57,505	(29,500)	(28,005)	-	-	-	-	-
Exchange of liability-classified shares at Initial Public Offering	22,448	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at Initial Public Offering	1,597	-	-	(1,597)	-	-	-	-
Conversion of debentures at Initial Public Offering	125,269	-	-	-	(35,213)	-	-	90,056
Share issuance at Initial Public Offering	70,019	-	-	-	-	-	-	70,019
Share issuance costs	(3,910)	-	-	-	-	-	-	(3,910)
Stock-based compensation (note 11)	-	-	-	589	-	-	-	589
Investment by non-controlling interest	-	-	-	-	-	-	913	913
<b>Balance, March 30, 2018</b>	<b>\$ 272,928</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,324</b>	<b>\$ -</b>	<b>\$ (88,052)</b>	<b>\$ 14,345</b>	<b>\$ 202,545</b>

See accompanying notes to the interim condensed consolidated financial statement



## PINNACLE RENEWABLE HOLDINGS INC.

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

	Note	13-week periods ended	
		March 30, 2018	March 31, 2017
Cash provided by (used in)			
Operating activities			
Net loss		\$ (12,774)	\$ (285)
Financing costs, net		382	5,827
Items not involving cash:			
Loss on conversion of debentures into shares	7	21,881	-
Amortization of property, plant and equipment		4,616	4,875
Amortization of intangible assets		742	729
Equity earnings in Houston Pellet Limited Partnership		(296)	(317)
Loss on disposal of equipment		141	59
Stock-based compensation	11	4,203	22
Impairment of inventory		53	-
Gain on conversion of Class B and D common shares	8	(3,563)	-
Deferred income tax recovery	13	(5,694)	(104)
Realized gain on derivatives		(201)	(77)
Distributions from Houston Pellet Limited Partnership		-	225
		9,490	10,954
Net change in non-cash operating working capital	15	17,899	809
		27,389	11,763
Financing activities			
Repayment of revolver loan		(22,000)	(7,100)
Payments of finance leases		(189)	(59)
Drawing on term debt		20,000	-
Repayment of delayed draw loan		(20,000)	-
Repayment of \$15M debentures	7	(28,577)	-
Share issuance costs		(3,851)	-
Proceeds from Initial Public Offering		70,019	-
Investment from non-controlling interest		913	-
Finance costs paid		(2,751)	(2,611)
		13,564	(9,770)
Investing activities			
Purchase of property, plant and equipment	15	(27,492)	(3,753)
Proceeds from sale of property, plant and equipment		55	-
		(27,437)	(3,753)
Foreign exchange gain (loss) on cash position held in foreign currency		101	(64)
Increase (decrease) in cash position		13,617	(1,824)
Cash position, beginning of period		18,908	12,112
Cash position, end of period		\$ 32,525	\$ 10,288

See accompanying notes to the interim condensed consolidated financial statement



## **PINNACLE RENEWABLE HOLDINGS INC.**

Notes to the Interim Condensed Consolidated Financial Statements  
For the 13-week periods ended March 30, 2018 and March 31, 2017  
(Amounts in thousands of Canadian dollars unless otherwise stated)  
(Unaudited)

### **1. Basis of preparation**

Pinnacle Renewable Holdings 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 interim condensed consolidated financial statements for the 13-week periods ended March 30, 2018 and March 31, 2017 (the “interim financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*, and include the accounts of the Company and its subsidiary entities.

These interim financial statements do not include all the information and disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements, and should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the year ended December 29, 2017 (the “annual financial statements”). Except as described below, the accounting policies applied to these interim financial statements follow the same policies applied in the December 29, 2017 annual financial statements.

Estimates and judgments made that affect these interim financial statements are the same as applied and disclosed in the December 29, 2017 annual financial statements.

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 reduce and volumes are generally higher.

The interim financial statements were authorized for issue by the Board of Directors on May 2, 2018.

#### ***Accounting standards adopted in 2018***

The following standards issued by IASB, effective from current financial year are implemented while preparing quarterly financials.

#### **IFRS 15 - Revenue from contracts with customers**

The Company has adopted IFRS 15 *Revenue from Contracts with Customers*, which establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations effective for annual periods beginning on or after January 1, 2018. The Standard establishes a single, principles based five-step model to be applied to all contracts with customers and provide useful information to users of financial statements about the nature, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The adoption of IFRS 15 does not have a material impact on these interim financial statements, other than in the form of additional disclosures included herein.



## **PINNACLE RENEWABLE HOLDINGS INC.**

Notes to the Interim Condensed Consolidated Financial Statements  
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### **1. Basis of preparation (continued)**

#### **IFRS 15 - Revenue from contracts with customers (continued)**

The Company has updated its accounting policies for revenue recognition to reflect the qualitative changes of the new standard, as set out below.

Under IFRS 15, revenue from the sale of goods is measured based on the consideration specified in a contract with a customer, and is recognised when a customer obtains control of the goods or services. The timing of transfer of control varies depending on the individual terms of the contract of sale. Amounts charged to customers for shipping and handling are recognised as revenue as services are provided, and are recorded in costs and expenses.

##### *Finished wood pellets*

Revenue is recognised when control over the pellets is transferred to the customer. The timing of transfer of control is generally when the product is loaded on the shipping vessel.

##### *Port services*

Revenue is recognised for port storage and handling services as those services are provided.

#### **IFRS 9 - Financial instruments**

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018. This standard introduces a new model for the classification and measurement of financial assets and liabilities, a single expected credit loss model for the measurement of the impairment of financial assets and a new model for hedge accounting that is aligned with an entity's risk management activities.

##### *Classification and measurement:*

IFRS 9 replaces the various categories for the classification of financial assets and initially measures them at fair value unless they meet the certain conditions that permit classification as amortised cost. Under IFRS 9 and IAS 39, non-trading financial liabilities are classified and measured at amortized cost except for those designated at fair value through profit and loss. There was no significant change in the Company's measurement of its financial assets and liabilities under IFRS 9.

Under IFRS 9, cash and accounts receivables are classified as amortised cost. Under IFRS 9, the amortized cost category is restricted to those financial assets that meet the following conditions: the entity holds the assets to collect the contractual cash flows and those cash flows are solely payments of principal and interest. The Company holds its accounts receivable to collect the contractual cash flows which represents repayment of the invoiced amount within the short-term credit period. As there is no financing component, accounts receivable are initially measured at their transaction price.



# PINNACLE RENEWABLE HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
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## 1. Basis of preparation (continued)

### IFRS 9 - Financial instruments (continued)

Under IFRS 9, accounts payable, the revolver loan, term loan and delayed draw term loan, shareholders' debentures and Class H preferred shares are classified and measured at amortized cost. Class B and Class D common shares held by management continue to be designated as fair value through profit and loss.

Under IFRS 9 and IAS 39, the Company's derivative instruments are always classified and measured at fair value with changes in fair value recognised in the consolidated net profit (loss).

#### *Impairment of financial assets:*

IFRS 9 replaces the incurred loss model with the expected credit loss model for the recognition and measurement of impairment losses on financial assets. IFRS 9 allows an entity to use a simplified approach for trade accounts receivable. Under this approach, the Company measures its expected credit losses as the amount from all possible default events over the expected life of its trade accounts receivable. The Company monitors individual customer accounts receivable on a frequent basis and recognizes a credit loss on specific accounts when a default is identified. There was no adjustment to impairment losses resulting from the adoption of use of the expected credit loss model.

#### ***Accounting Standards issued but not yet effective***

IFRS 16 *Leases*, was issued in January 2016 by the IASB as a replacement for IAS 17 *Leases*. The Standard introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. The Standard is effective for annual periods beginning on or after January 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined but conceptually will result in significant operating leases being recorded on the Company's statement of financial position.

## 2. Accounts Receivable

As at	March 30, 2018		December 29, 2017	
Trade accounts receivable	\$	12,237	\$	14,503
Other receivables		9,698		25,965
Amounts receivable from related parties (note 16)		1,558		785
	\$	23,493	\$	41,253

Included in other receivables is \$7,967 (December 29, 2017 - \$14,590) of accrued sales which were invoiced in the month subsequent to period end.





## PINNACLE RENEWABLE HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
 For the 13-week periods ended March 30, 2018 and March 31, 2017  
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### 3. Inventory

As at		March 30, 2018		December 29, 2017
Wood pellets	\$	4,832	\$	6,479
Fibre		6,367		6,764
Supplies and spare parts		4,754		4,466
	\$	15,953	\$	17,709

The above inventory balances include adjustments to measurement estimates and to net realizable value which resulted in write-ups and write-downs. For the 13-week period ended March 30, 2018, inventory reflects a net loss of \$53 (December 29, 2017 - write-up of \$594). These adjustments are included in production costs in net loss.

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

At March 30, 2018, PP&E includes \$83,807 (December 29, 2017 - \$64,189) related to the construction in progress of a new plant in Entwistle, Alberta and \$10,369 (December 29, 2017 - \$8,767) in Smithers, BC.

### 5. Investment in Houston Pellet Limited Partnership ("Houston Pellet LP")

Houston Pellet LP manufactures wood pellets for sale to external customers and the Company. The investment in Houston Pellet LP has been accounted for under the equity basis. The following table summarizes the financial information of Houston Pellet LP and reconciles the Company's carrying value and its share of net loss:

Investment in Houston Pellet LP		30%		30%
As at		March 30, 2018		December 29, 2017
Current assets	\$	18,794	\$	17,616
Non-current assets		8,285		8,544
Current liabilities		(2,450)		(2,516)
Non-current liabilities		-		-
<b>Net assets</b>	\$	24,629	\$	23,644
Company's share of net assets		7,389		7,093
Goodwill		1,823		1,823
<b>Investment in Houston Pellet LP</b>	\$	9,212	\$	8,916

		13-week periods ended	
		March 30, 2018	March 31, 2017
Revenue	\$	8,248	\$ 8,452
Expense		(6,928)	(7,047)
Amortization		(333)	(348)
<b>Net Income</b>	\$	987	\$ 1,057
<b>Company's share of Net Income</b>	\$	296	\$ 317



## PINNACLE RENEWABLE HOLDINGS INC.

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### 6. Revolver loan and term debt

As at	March 30, 2018		December 29, 2017	
Revolver loan	\$	-	\$	22,000
Term loan		<b>200,000</b>		180,000
Delayed draw term loan		-		20,000
	\$	<b>200,000</b>	\$	222,000
Less:				
Current portion		<b>(8,000)</b>		(6,000)
Revolver loan shown as current		-		(22,000)
Deferred financing costs		<b>(3,050)</b>		(3,187)
	\$	<b>188,950</b>	\$	190,813

As at March 30, 2018 and December 29, 2017, the Company has a credit facility from nine lenders through a syndicated loan agreement which provides up to a \$50,000 revolving operating line, a \$200,000 term loan, and a \$130,000 delayed draw term loan (the "Facility"). The Facility has a maturity date of December 16, 2022.

Advances under the 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 and is payable monthly at the applicable Bank Prime BA, US Base or LIBOR rates 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% for Prime/US Base and BA/LIBOR loans, respectively and a maximum margin of 3.00% and 4.00%, respectively.

At March 30, 2018, the \$200,000 term loan was in a Canadian dollar BA loan at 5.12%. At December 29, 2017, the \$180,000 term loan and the revolver loan were in Canadian dollar Prime loans at 5.70% and the \$22,000 delayed draw term loan was in a Canadian dollar BA loan at 4.86%. At March 30, 2018, the Company had issued letters of credit totaling \$530 (December 29, 2017 - \$530).

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. As at March 30, 2018 and December 29, 2017, 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's subsidiary, Pinnacle Renewable Energy Inc.



## PINNACLE RENEWABLE HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
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### 7. Shareholders' debentures payable

As at	March 30, 2018	December 29, 2017
Convertible debentures at face value	\$ -	\$ 60,000
Accrued interest debentures at face value	-	49,570
Effective interest rate adjustment on convertible debentures	-	(48,364)
	-	61,206
Subordinated debentures at face value	-	15,000
Accrued interest on subordinated debentures	-	13,571
	-	28,571
	-	89,777
Less: current interest payable in other current liabilities	-	(896)
	\$ -	\$ 88,881

As at December 29, 2017, the ONCAP entities ("ONCAP") collectively owned 60% of the Company and was the Company's controlling parent. ONCAP held convertible debentures totaling \$60,000 at face value and \$49,570 representing accrued interest. The Company carried the combined fair value of these instruments of \$61,206 as liability and \$35,213 as equity on the consolidated statements of financial position. ONCAP and other minority shareholders also held subordinated debentures totaling \$15,000 at face value.

Upon the closing of the IPO on February 6, 2018, the convertible debentures were exchanged for common shares. The \$60,000 convertible debentures were converted at their conversion value along with an associated deferred income tax recovery of \$6,971 with no gain or loss on conversion. The \$49,570 debentures were exchanged for new common shares at their face value, resulting in a \$21,881 loss on exchange, representing the difference between the carrying value and the face value, netted against an associated deferred income tax recovery of \$5,759. The carrying value of the subordinated debentures and accrued interest of \$28,577 were repaid from proceeds of treasury shares issued at the IPO.

### 8. Common and preferred share classified as liabilities

As at	March 30, 2018	December 29, 2017
Class B common shares 5,500,000 shares; cost of \$5,500	\$ -	\$ 17,215
Class D common shares 1,172,414 shares; cost of \$1,550	-	3,646
Class H preferred shares 5,004,000 shares; cost of \$5,055	-	5,131
	\$ -	\$ 25,992

At December 29, 2017, the Company's management held Class B and Class D common shares. These shares contained features that could require future settlement in cash and Class D shares had a put right enabling shareholders to put their Class D shares to the Company on death or disability at the greater of cost or fair value. The fair value measurements for these classes of shares were presented as liabilities. Class H preferred shares accrued dividends at 4.5% and 3.0% was paid quarterly. The difference of 1.5% was added to their carrying value.

Upon the closing of the IPO on February 6, 2018, Class B and Class D common shares and Class H preferred shares presented as liabilities were exchanged for new common shares at their fair value, resulting in a \$3,563 gain on conversion.



## PINNACLE RENEWABLE HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
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### 9. Shareholders' equity

Prior to the IPO, the Company's authorized share capital was as described in the December 29, 2017 annual consolidated financial statements.

In connection with the IPO, the Company amended its share structure ("Pre-Closing Capital Changes") and issued new common shares as follows:

Share structure	Pre-closing share structure		New common shares	
	Number of shares	Amount	Number of shares	Amount
Class A common shares	25,000,000	\$ 25,000	5,831,730	\$ 25,000
Class B common shares	4,500,000	4,500	1,049,711	4,500
Class B common shares (liability)	5,500,000	17,215	1,282,980	14,275
Class D common shares (liability)	1,172,474	3,646	254,592	3,023
Class E preferred shares	500,000	500	36,719	500
Class F preferred shares	19,000,000	19,000	2,274,553	19,000
Class G preferred shares	8,600,000	8,505	982,341	8,505
Class H preferred shares (liability)	5,004,000	5,150	457,785	5,150
Convertible debentures	-	-	14,076,068	125,269
Stock options exercised	-	-	432,853	1,597
Share issuance	-	-	6,223,889	70,019
	<b>69,276,474</b>	<b>\$ 83,516</b>	<b>32,903,221</b>	<b>\$ 276,838</b>

Upon closing of the IPO, the Company's authorized share capital consisted of the following:

- Unlimited common participating, voting shares, without par value
- Unlimited preferred participating, voting shares, without par value

As at March 30, 2018, there were 32,903,221 common shares issued and outstanding and no preferred shares issued and outstanding.



## PINNACLE RENEWABLE HOLDINGS INC.

Notes to the Interim Condensed Consolidated Financial Statements  
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### 10. Non-controlling Interests

The following table summarizes the non-controlling financial information relating to Lavington Pellet Limited Partnership ("Lavington Pellet LP") and Smithers Pellet Limited Partnership ("Smithers Pellet LP") before inter-company eliminations:

As at	March 30, 2018			December 29, 2017		
	Lavington Pellet LP	Smithers Pellet LP	Total	Lavington Pellet LP	Smithers Pellet LP	Total
Non-controlling interest percentage	25%	30%		25%	30%	
Current assets	\$ 9,228	\$ 3,573	\$ 12,801	\$ 8,703	\$ 1,828	\$ 10,531
Non-current assets	39,876	11,020	50,896	40,610	9,417	50,027
Current liabilities	(3,877)	(3,644)	(7,521)	(3,650)	(3,245)	(6,895)
Non-current liabilities	(989)	-	(989)	(970)	-	(970)
<b>Net assets</b>	\$ 44,238	\$ 10,949	\$ 55,187	\$ 44,693	\$ 8,000	\$ 52,693
Net assets attributable to NCI	\$ 11,060	\$ 3,285	\$ 14,345	\$ 11,173	\$ 2,400	\$ 13,573

  

	13-week periods ended March 30, 2018			13-week periods ended March 31, 2017		
Revenue	\$ 9,956	\$ -	\$ 9,956	\$ 8,219	\$ -	\$ 8,219
<b>Net income</b>	(456)	(91)	(547)	(243)	-	(243)
Net income allocated to NCI	\$ (114)	\$ (27)	\$ (141)	\$ (61)	\$ -	\$ (61)

### 11. Stock based compensation

The Company has a legacy stock option plan (the "Legacy Plan") pursuant to which it has granted stock options to directors and employees of the Company. Concurrent with the Company's reorganization of its share capital and the closing of the IPO, the Company amended and restated the Legacy Plan in its entirety to comply with public company provisions as required by the Toronto Stock Exchange. In addition, in connection with the IPO, the Company adopted 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

Prior to the IPO, the Company had granted options to acquire Class D common shares at a price not less than the market value of the shares on the day of the grant and for a term not exceeding 10 years. Options granted vest at a rate of 20% per year from the date of grant.

Concurrent with the IPO and as a result of the amendment of the Legacy Plan, options to acquire Class D common shares were exchanged on an approximately one-to-0.3404 basis for options exercisable to acquire common shares at a post-amendment exercise price such that the in-the-money value of such options remain unchanged (the "Amended Options").

The amended options to acquire common shares are designated as replacement awards. As a result of the amendment, the Company recognised \$410 in stock-based compensation expense for the 13-week period ended March 30, 2018 (13-week period ended March 31, 2017 - \$nil), which represents the incremental fair value of the vested portion of the replacement awards.



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### 11. Stock based compensation (continued)

#### a) Legacy Plan (continued)

Following completion of the IPO, no additional awards are granted under the Legacy Plan. The outstanding options under the Legacy Plan have a term of 10 years and are exercisable for common shares of the Company. 1,694,983 common shares, representing approximately 5.15% of the Company's common shares upon the completion of the IPO, are reserved and available for issuance upon exercise of options previously granted under the Legacy Plan.

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

	For the 13-week periods ended			
	March 30, 2018 <sup>(1)</sup>		March 31, 2017 <sup>(1)</sup>	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding, beginning of period	2,715,376	6.63	2,306,946	6.48
Granted	-	-	-	-
Exercised	(1,020,393)	6.48	-	-
Forfeited / cancelled / expired	-	-	-	-
Outstanding, end of period	1,694,983	8.03	2,306,946	6.48

<sup>(1)</sup> This table reflects the options and exercise prices after the option amendment which took effect immediately prior to the closing of the IPO.

For the 13-week period ended March 30, 2018, a total of \$589 in stock-based compensation expense was recognised in relation to the Legacy Plan (13-week period ended March 31, 2017 - \$22). Contributed surplus on the consolidated statement of financial position relates to accrued stock-based compensation.

#### b) Long-term Incentive Plan

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.

##### i. Options

During the 13-week period ended March 30, 2018, no options were granted under the LTIP.



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### 11. Stock based compensation (continued)

- b) Long-term Incentive Plan (continued)
  - ii. Restricted share units

Upon closing of the IPO on February 6, 2018, the Company granted 259,356 RSUs which vested immediately upon grant. These RSUs are to be settled no earlier than one year from the date of the closing of the IPO and no later than December 31 of the calendar year which is three years from the vesting date.

On March 19, 2018, the Company granted 8,956 RSUs 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.

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:

Dividend yield	5.33%
Expected volatility	33.11%
Risk-free interest rate	1.94% to 2.04%
Expected life	4.76 to 6.76 years
Exercise price	\$ nil

For the 13-week period ended March 30, 2018, stock-based compensation expense in relation to RSUs granted on February 6, 2018 and March 19, 2018 under the LTIP was \$3,612 and \$2, respectively, and was included in selling, general and administration expenses.



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### 12. Finance costs

#### a) Finance costs excluding shareholders' debentures

	13-week periods ended	
	March 30, 2018	March 31, 2017
Interest on revolver loan, term debt and delayed draw loan	\$ 1,916	\$ 1,860
Fair value (gain)/loss on derivatives	(1,926)	369
Realized (gain)/loss on derivatives	37	(158)
Unrealized (gain)/loss on foreign exchange	(161)	(41)
Realized loss on foreign exchange	63	116
Amortization of deferred financing fees	163	148
Other	290	800
	\$ 382	\$ 3,094

#### b) Finance costs on shareholders' debentures

	13-week periods ended	
	March 30, 2018	March 31, 2017
Interest on debentures (note 7)	\$ -	\$ 2,733
	\$ -	\$ 2,733

### 13. Income taxes

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

	13-week periods ended	
	March 30, 2018	March 31, 2017
Income tax recovery at statutory rate - 27% (2017 - 26%)	\$ 4,986	\$ 102
Decrease related to		
Permanent differences and other	708	2
	5,694	104
Classified as		
Current	-	-
Deferred	5,694	104
Income tax recovery	\$ 5,694	\$ 104





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### 14. Earnings per share

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

	13-week periods ended	
	March 30, 2018	March 31, 2017
Net loss for the year attributable to owners	\$ 12,633	\$ 224
Cumulative preferred dividends	104	310
	\$ 12,737	\$ 534
Net loss per share (Basic and diluted)	\$ 0.58	\$ 0.08
Weighted average of number of shares outstanding (thousands)	22,037	6,881

For the 13-week periods ended March 30, 2018 and March 31, 2017, the Company incurred net losses attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive. The weighted average number of shares for the 13-week periods ended March 30, 2018 and March 31, 2017 has been adjusted for Pre-Closing Capital Changes.

### 15. Supplemental cash flow information

	13-week periods ended	
	March 30, 2018	March 31, 2017
Accounts receivable	\$ 18,052	\$ 1,366
Inventory	1,703	2,722
Other current assets	595	456
Accounts payable and accrued liabilities	7,347	(3,923)
Other current liabilities	(9,798)	188
Net increase in working capital	\$ 17,899	\$ 809

	13-week periods ended	
	March 30, 2018	March 31, 2017
PP&E additions during the year	\$ 22,465	\$ 3,360
PP&E additions from prior year paid during the year	11,605	1,792
PP&E additions in accounts payable	(6,578)	(1,399)
Purchase of PP&E	\$ 27,492	\$ 3,753



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### 16. Related parties

#### *Parent and ultimate controlling entity*

Prior to the IPO, the Company was controlled by ONCAP, who effectively owned 60% of the Company. ONCAP is ultimately controlled by Onex Corporation. During the 13-week period ended March 30, 2018, the Company paid a monitoring fee to ONCAP of \$50 (13-week period ended March 31, 2017 - \$125). The monitoring fee has been discontinued upon the closing of the IPO.

#### *Minority shareholder*

During the period, the Company paid rent on a plant facility to a minority shareholder in the amount of \$60 (March 31, 2017 - \$60). This amount is set-out in a lease agreement entered into in the normal course of business and on the same terms accorded to unrelated third parties.

#### *Houston Pellet LP*

Houston Pellet LP is owned 30% by the Company and 70% by non-related third parties. The Company purchases industrial wood pellets from Houston Pellet LP and earns revenue from sales of fibre and distribution fees. The Company manages and administers the business affairs of Houston Pellet LP and charges a management fee. These transactions are at negotiated amounts between the Company and the non-related third parties.

	13-week periods ended	
	March 30, 2018	March 31, 2017
Purchases	\$ 6,919	\$ 7,114
Revenue and other fees	1,811	1,805
<hr/>		
As at	March 30, 2018	December 29, 2017
Amounts receivable	\$ 1,558	\$ 785
Amounts payable	3,848	2,715

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



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### 16. Related parties (continued)

#### *Lavington Pellet LP*

Lavington Pellet LP is owned 75% by the Company and 25% by a non-related third party. The Company purchases industrial wood pellets from Lavington Pellet LP and earns revenue from sales of fibre at negotiated prices between the Company and the non-related third party. The Company manages and administers the business affairs of Lavington Pellet LP.

	13-week periods ended	
	March 30, 2018	March 31, 2017
Purchases	\$ 9,956	\$ 8,219
Revenue	17	18
As at	March 30, 2018	December 29, 2017
Amounts receivable	\$ 427	\$ 491
Amounts payable	5,673	4,839

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

#### *Smithers Pellet LP*

On October 4, 2017, the Company entered into a limited partnership with a non-related third party for the acquisition and development of a wood pellet facility. Smithers Pellet LP is owned 70% by the Company and 30% by a non-related third party. On October 13, 2017, the Company contributed \$5,600 and the non-related third party contributed \$2,400 for the purchase of land, plant and equipment and intangible assets. On March 2, 2018, the Company contributed \$2,130 and the non-related third party contributed \$913 for the development of the wood pellet facility.

As at	March 30, 2018	December 29, 2017
Amounts receivable	\$ 941	\$ -
Amounts payable	37	-

### 17. Financial instruments

Cash, accounts receivable, accounts payable and accrued liabilities and are classified as amortized cost and their fair values approximate their carrying values in these financial instruments due to their short terms to maturity. The revolver loan and term loan are classified as amortized cost and their fair values approximate their carrying values in these financial instruments as these debt facilities are repriced to short-term money market instruments.

The convertible shareholder debentures and Class F preferred shares were classified as amortized cost and on February 6, 2018 these instruments were converted to common shares. Also, on February 6, 2018, the subordinated shareholders' debentures were repaid at their amortized cost (note 7).



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### 17. Financial instruments (continued)

The Class B common shares and Class D common shares classified as liabilities were carried at fair value based on the underlying fair value of the enterprise based on management's estimates. Accordingly these financial instruments are classified as Level 3 in the fair value hierarchy. These Class B and D shares were converted to common shares on February 6, 2018. Prior to the conversion, these shares were revalued to their fair value based on the Company's enterprise value calculated with the IPO price of \$11.25 per common share. This change in valuation resulted in reduction in the fair value of these financial instruments and a gain recognised in the Company's net loss (note 8).

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values:

Balance at December 29, 2017	\$	<b>20,861</b>
Net change in fair value		(3,563)
Conversion to common shares		(17,298)
Balance at March 30, 2018	\$	-

The Company's US dollar forward contracts are derivative instruments and are carried at fair value through net profit (loss) and are classified as Level 1 in the fair value hierarchy. The outstanding notional amounts of the US dollar forward contracts, their contractual maturities and fair values are as follows:

	Notional amount	Average forward rate	Less than 12 months	More than 12 months	Fair value asset (liability)
As at March 30, 2018	\$ 67,550	1.2565	\$ 22,400	\$ 45,150	\$ 1,453
As at December 29, 2017	\$ 73,564	1.259	\$ 9,064	\$ 64,500	\$ (474)

For the 13-week period ended March 30, 2018, the Company recognised a gain of \$1,889 (13-week period ended March 31, 2017 – loss of \$211) on its derivative financial instruments in its net loss.

The following table summarizes the fair value of the derivative financial instruments included in the statements of financial position:

As at	March 30, 2018		December 29, 2017	
Other current assets	\$	<b>576</b>	\$	-
Other long-term assets		<b>877</b>		-
Other current liabilities		-		256
Other long-term liabilities		-		218
	\$	<b>1,453</b>	\$	474



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### 18. 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.

### 19. Economic dependence

The Company has certain European and Asian customers whose individual revenue represents 10% or greater of the Company's total revenue. For the 13-week period ended March 30, 2018, three of these customers represented 69.1% of the Company's total revenues. For the 13-week period ended March 31, 2017, two of these customers represented 87% 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.

### 20. Revenue from contracts

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	
	March 30, 2018	March 31, 2017
Finished wood pellets	\$ 69,260	\$ 66,093
Port Services	1,762	1,754
	\$ 71,022	\$ 67,847

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

	13-week periods ended	
	March 30, 2018	March 31, 2017
Europe	\$ 45,214	\$ 59,109
Asia	21,131	4,655
North America	4,677	4,083
	\$ 71,022	\$ 67,847