Second Quarter of Fiscal 2019

For the 13-week and 26-week periods ended June 28, 2019 and June 29, 2018

Interim Condensed Consolidated Financial Statements

Pinnacle.
RENEWABLE ENERGY INC.

PINNACLE RENEWABLE ENERGY INC.

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

As at	Note	June 28, 2019	December 28, 2018
Assets			
Current assets			
Cash and cash equivalents		$ **9,827**	$ 18,028
Accounts receivable	3	**51,121**	41,502
Receivable against NMTC debt	8	**83,320**	1,515
Inventory	4	**28,971**	24,531
Other current assets	5	**8,978**	5,846
		182,217	91,422
Property, plant and equipment	6	**364,995**	330,899
Investment in Houston Pellet Limited Partnership		**7,681**	9,374
Receivable against NMTC debt	8	**-**	84,877
Other long-term assets		**420**	2,500
Deferred income taxes		**1,385**	149
Goodwill and intangible assets		**106,030**	108,073
Total assets		$ **662,728**	$ 627,294
Liabilities and Shareholders' Equity			
Current liabilities			
Revolver loan	7	$ **-**	$ 18,450
Accounts payable and accrued liabilities	9	**43,236**	43,537
Current portion of long-term debt	7	**1,400**	9,500
Current portion of NMTC debt	8	**83,320**	1,515
Other current liabilities	10	**7,172**	3,642
		135,128	76,644
Long-term debt	7	**274,343**	232,425
NMTC debt	8	**-**	84,877
Other long-term liabilities	10	**34,828**	4,335
		444,299	398,281
Shareholders' Equity			
Common shares	11	**277,417**	273,966
Contributed surplus	12	**3,821**	3,556
Accumulated other comprehensive loss		**(1,382)**	-
Deficit		**(100,418)**	(86,437)
Total equity attributable to owners of the Company		**179,438**	191,085
Non-controlling interest		**38,991**	37,928
Total equity		**218,429**	229,013
Total liabilities and shareholders' equity		$ **662,728**	$ 627,294

Contingencies (note 19)
Subsequent events (note 23)
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 ENERGY INC.

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

	Note	13-week periods ended		26-week periods ended	
		June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Revenue	21	**$ 104,164**	$ 85,084	**$ 193,791**	$ 156,106
Costs and expenses					
Production	3	**69,921**	53,893	**136,456**	102,413
Distribution		**13,005**	13,138	**25,771**	21,168
Selling, general and administration		**5,147**	4,265	**8,940**	13,482
Amortization		**9,801**	5,381	**19,384**	10,739
		97,874	76,677	**190,551**	147,802
Operating income		**6,290**	8,407	**3,240**	8,304
Other income (expense)					
Equity earnings in Houston Pellet Limited Partnership		**395**	377	**707**	673
Loss on disposal of property, plant and equipment		**(67)**	(131)	**(97)**	(272)
Gain on conversion of class B&D common shares		**-**	-	**-**	3,563
Loss on conversion of debentures into shares		**-**	-	**-**	(21,881)
Impairment of Entwistle plant	6	**-**	-	**(9,417)**	-
Insurance recovery for property loss at Entwistle plant	3	**5,000**	-	**8,000**	-
Impairment of intangible assets		**-**	-	**(278)**	-
Finance costs	13	**(7,753)**	(41)	**(14,162)**	(423)
Other income (expense)	22	**(337)**	135	**6,882**	362
Plant impairment loss and curtailment costs		**-**	(61)	**-**	(108)
		(2,762)	279	**(8,365)**	(18,086)
Net profit (loss) before income taxes		**3,528**	8,686	**(5,125)**	(9,782)
Income tax (expense) recovery					
Deferred	14	**(1,143)**	(2,182)	**1,241**	3,512
Net profit (loss)		**$ 2,385**	$ 6,504	**$ (3,884)**	$ (6,270)
Net profit (loss) attributable to:					
Owners of the Company		**$ 1,980**	$ 6,218	**$ (4,012)**	$ (6,415)
Non-controlling interests		**405**	286	**128**	145
		$ 2,385	$ 6,504	**$ (3,884)**	$ (6,270)
Net profit (loss) per share attributable to owners (basic and diluted):	15	**$ 0.06**	$ 0.19	**$ (0.12)**	$ (0.24)
Weighted average of number of shares outstanding (thousands):	15	**33,300**	32,943	**33,170**	27,490

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)

	Note	13-week periods ended		26-week periods ended	
		June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Net income (loss)		**$ 2,385**	$ 6,504	**$ (3,884)**	$ (6,270)
Other comprehensive loss net of taxes:					
Items that may be recycled through net income:					
Foreign exchange translation of foreign operations, net of tax		**(746)**	-	**(1,247)**	-
Comprehensive income (loss) for the period		**$ 1,639**	$ 6,504	**$ (5,131)**	$ (6,270)
Comprehensive income (loss) attributable to:					
Owners of the Company		**$ 1,099**	$ 6,218	**$ (5,394)**	$ (6,415)
Non-controlling interests		**540**	286	**263**	145
		$ 1,639	$ 6,504	**$ (5,131)**	$ (6,270)

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	Class A & B Common Shares	Class E, F & G Preferred Shares	Contributed Surplus	Convertible Debentures - Equity Component	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total Equity
Balance, December 29, 2017	57,600,000	$ -	$ 29,500	$ 28,005	$ 4,332	$ 35,213	$ -	$ (75,419)	$ 13,573	$ 35,204
Net profit (loss) for the period	-	-	-	-	-	-	-	(6,415)	145	(6,270)
Share exchange at Initial Public Offering ("IPO")	(47,424,946)	57,505	(29,500)	(28,005)	-	-	-	-	-	-
Exchange of liability-classified shares at IPO	1,995,357	22,448	-	-	-	-	-	-	-	22,448
Stock options exercised and exchanged at IPO	432,853	1,597	-	-	(1,597)	-	-	-	-	-
Conversion of debentures at IPO	14,076,068	125,269	-	-	-	(35,213)	-	-	-	90,056
Share issuance at IPO	6,223,889	70,019	-	-	-	-	-	-	-	70,019
Share issuance costs	-	(3,987)	-	-	-	-	-	-	-	(3,987)
Stock options exercised during the period	-	756	-	-	(314)	-	-	-	-	442
Stock-based compensation (note 12)	-	-	-	-	822	-	-	-	-	822
Dividends declared during the period	-	-	-	-	-	-	-	(2,967)	-	(2,967)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(125)	(125)
Investment by non-controlling interest	-	-	-	-	-	-	-	-	913	913
Balance, June 29, 2018	32,903,221	$ 273,607	$ -	$ -	$ 3,243	$ -	$ -	$ (84,801)	$ 14,506	$ 206,555
Balance, December 28, 2018	**33,003,713**	**$ 273,966**	**$ -**	**$ -**	**$ 3,556**	**$ -**	**$ -**	**$ (86,437)**	**$ 37,928**	**$ 229,013**
Net profit (loss) for the period	-	-	-	-	-	-	-	(4,012)	128	(3,884)
Stock options exercised during the period	34,036	378	-	-	(157)	-	-	-	-	221
RSUs settled during the period	262,342	3,073	-	-	-	-	-	-	-	3,073
Stock-based compensation (note 12)	-	-	-	-	422	-	-	-	-	422
Dividends declared during the period	-	-	-	-	-	-	-	(9,946)	-	(9,946)
Reversal of excess dividend accrual for last year	-	-	-	-	-	-	-	(23)	-	(23)
Foreign exchange translation of foreign operations, net of tax	-	-	-	-	-	-	(1,382)	-	135	(1,247)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(550)	(550)
Investment by non-controlling interests	-	-	-	-	-	-	-	-	1,350	1,350
Balance, June 28, 2019	**33,300,091**	**$ 277,417**	**$ -**	**$ -**	**$ 3,821**	**$ -**	**$ (1,382)**	**$ (100,418)**	**$ 38,991**	**$ 218,429**

See accompanying notes to the interim condensed consolidated financial statements

PINNACLE RENEWABLE ENERGY INC.

Interim Condensed Consolidated Cash Flow Statements

(Expressed in thousands of Canadian dollars unless otherwise stated)

(Unaudited)

	Note	13-week periods ended		26-week periods ended	
		June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Cash provided by (used in)					
Operating activities					
Net profit (loss)		**$ 2,385**	$ 6,504	**$ (3,884)**	$ (6,270)
Financing costs, net	13	**7,753**	41	**14,162**	423
Items not involving cash:					
Loss on conversion of debentures into shares		**-**	-	**-**	21,881
Amortization		**9,801**	5,381	**19,384**	10,739
Equity earnings in Houston Pellet Limited Partnership		**(395)**	(377)	**(707)**	(673)
Loss on disposal of equipment		**67**	131	**97**	272
Stock-based compensation	12	**461**	176	**629**	4,379
Inventory write (up) down		**263**	(53)	**590**	-
Impairment of Entwistle plant	6	**-**	-	**9,417**	-
Impairment of intangible assets		**-**	-	**278**	-
Insurance recoverable for property loss at Entwistle plant	3	**(2,000)**	-	**(5,000)**	-
Insurance recoverable for business interruption at Entwistle plant		**(4,500)**	-	**(4,500)**	-
Gain on Class B and D common shares		**-**	-	**-**	(3,563)
Deferred income tax expense (recovery)	14	**1,143**	2,182	**(1,241)**	(3,512)
Realized (gain) loss on derivatives		**512**	(44)	**997**	(245)
Distributions from Houston Pellet Limited Partnership		**-**	150	**2,400**	150
		15,490	14,091	**32,622**	23,581
Net change in non-cash operating working capital	16	**(7,414)**	(4,557)	**(14,292)**	13,342
		8,076	9,534	**18,330**	36,923
Financing activities					
Repayment of revolver loan	7	**(16,500)**	-	**(18,450)**	(22,000)
Payment of finance leases		**(2,385)**	(163)	**(4,715)**	(352)
Drawings on term debt	7	**277,973**	-	**277,973**	20,000
Repayment of term debt	7	**(192,000)**	(2,000)	**(194,000)**	(2,000)
Repayment of delayed draw loan	7	**(49,760)**	-	**(49,760)**	(20,000)
Repayment of $15M debentures		**-**	-	**-**	(28,577)
Share issuance costs		**-**	(1,584)	**-**	(5,435)
Proceeds from Initial Public Offering		**-**	-	**-**	70,019
Proceeds from exercise of stock options	12	**-**	442	**221**	442
Dividends paid during the period		**(4,995)**	(2,967)	**(9,946)**	(2,967)
Investment from non-controlling interest		**-**	-	**1,350**	913
Distributions to non-controlling interest		**(250)**	(125)	**(550)**	(125)
Finance costs paid		**(4,945)**	(3,079)	**(8,589)**	(5,830)
		7,138	(9,476)	**(6,466)**	4,088
Investing activities					
Purchase of property, plant and equipment	16	**(13,942)**	(10,519)	**(20,236)**	(38,011)
Proceeds from sale of property, plant and equipment		**53**	60	**86**	115
		(13,889)	(10,459)	**(20,150)**	(37,896)
Foreign exchange gain (loss) on cash position held in foreign currency		**(8)**	221	**85**	322
Increase (decrease) in cash and cash equivalents		**1,317**	(10,180)	**(8,201)**	3,437
Cash and cash equivalents, beginning of period		**8,510**	32,525	**18,028**	18,908
Cash and cash equivalents, end of period		**$ 9,827**	$ 22,345	**$ 9,827**	$ 22,345

Supplemental cash flow information (Note 16)

See accompanying notes to the interim condensed consolidated financial statements

1. Nature of operations and basis of preparation

Pinnacle Renewable Energy Inc. (formerly 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 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”). During 2018, the Company entered into the US market by acquiring a 70% interest in Pinnacle Westervelt Renewable Holdings, LLC (“PWRH LLC”) which holds 100% equity in the operating company Westervelt Pellet I, LLC (“WPI LLC”) with a facility located in Alabama. The Company’s newest facility in Smithers, British Columbia started commercial operations on December 29, 2018. The Company also owns and operates the Westview port facility at Prince Rupert, British Columbia for the storage, handling and loading of the Company's and third party’s wood pellets.

Seasonality of Operations

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

Statement of compliance

These interim condensed consolidated financial statements (“interim financial statements”) of the Company have been prepared in accordance with International Financial Reporting Standards and Interpretations (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting. These interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 12, 2019.

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 28, 2018 except as noted below. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 28, 2018.

2. Significant accounting policies (continued)

Changes in accounting policies

IFRS 16 *Leases*

IFRS 16 *Leases* was issued in January 2016 by the International Accounting Standards Board ("IASB") as a replacement for IAS 17 *Leases* ("IAS 17") and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset ("ROU asset") representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has elected to apply the modified retrospective approach upon early adoption at December 29, 2018, measuring the ROU asset at an amount equal to the lease liability, which resulted in no change to deficit. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

A. Significant accounting policy

The Company recognises a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and instead accounts for the lease and non-lease components as a single lease component.

B. As a lessee

The Company leases many assets, including land, production equipment, Information Technology ("IT") equipment, rail cars and vehicles.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises ROU assets and lease liabilities for most leases. The Company has elected not to recognise ROU assets and lease liabilities for some leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Amounts in thousands of Canadian dollars unless otherwise stated)

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

B. As a lessee (continued)

The carrying amounts of ROU assets are as below:

Cost	Land & Building	Rail Cars	Vehicles & Equipment	Total
Balance, December 29, 2018	$ 7,771	$ 27,625	$ 1,407	$ 36,803
Additions	-	-	3,066	3,066
Reclassification from Machinery & other equipment to ROU assets	-	-	3,208	3,208
Balance, June 28, 2019	**$ 7,771**	**$ 27,625**	**$ 7,681**	**$ 43,077**
Amortization				
Balance, December 29, 2018	-	-	-	-
Amortization	(440)	(2,757)	(608)	(3,805)
Reclassification from Machinery & other equipment to ROU assets	-	-	(592)	(592)
Balance, June 28, 2019	**$ (440)**	**$ (2,757)**	**$ (1,200)**	**$ (4,397)**
Carrying Amounts				
At December 29, 2018	$ 7,771	$ 27,625	$ 1,407	$ 36,803
At June 28, 2019	**$ 7,331**	**$ 24,868**	**$ 6,481**	**$ 38,680**

C. Transition

Previously, the Company classified property leases, which include office and production facilities, and rail car leases as operating leases under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at December 29, 2018. ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

On adoption, the Company elected to apply the following practical expedients and elections:

- IFRS 16 was only applied to contracts previously identified as leases. Contracts not identified as leases under IAS 17 and IFRIC 4 *Determining Whether an Arrangement contains a Lease* were not reassessed.

- ROU assets and lease liabilities were not recognised for leases with less than 12 months of remaining lease term, nor for low value leases for items. Associated lease payments were recognised as an expense on a straight-line basis over the lease term.

- Initial direct costs were excluded from the measurement of the ROU asset at the date of initial application.

- Hindsight was used when determining the lease term if the contract contained options to extend or terminate the lease.

The Company leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the ROU asset and the lease liability at December 29, 2018 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

(Amounts in thousands of Canadian dollars unless otherwise stated)

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

C. Transition (continued)

On transition to IFRS 16, the Company recognised $36,803 of ROU assets and $36,803 of lease liabilities as at December 29, 2018. When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at December 29, 2018. The rate applied ranged between 6.280% to 6.591%, based on different characteristics of each of the leased assets. The impact is as noted below:

	December 29, 2018
Operating lease commitment at December 28, 2018	$ 65,748
Recognition exemptions for variable lease payments	(14,413)
Recognition exemptions for service fees	(1,781)
Recognition exemptions for short-term and low-value leases	(1,463)
Discount using incremental borrowing rate at December 29, 2018	(11,288)
Discounted operating lease commitment under IFRS 16 using incremental borrowing rate at December 29, 2018	**$ 36,803**

During the 13-week and 26-week periods ended June 28, 2019, the Company recognised $2,147 and $3,805, respectively, of amortization charges and $578 and $1,150, respectively, of interest costs from these leases.

Accounting standards issued but not yet effective

A number of amendments to existing standards are effective from January 1, 2020, but they are not expected to have a material effect on the Company’s financial statements.

(Amounts in thousands of Canadian dollars unless otherwise stated)

3. Accounts Receivable

As at	June 28, 2019	December 28, 2018
Trade accounts receivable	**$ 38,976**	$ 34,359
Other receivables	**11,574**	6,453
Amounts receivable from related parties	**571**	690
	$ 51,121	$ 41,502

Included in trade accounts receivable is $13,591 (December 28, 2018 - $23,085) of accrued sales which were invoiced in the month subsequent to period end. Other receivables include an amount of $5,000 (December 28, 2018 - $nil) for property insurance recoverable and $4,500 (December 28, 2018 - $nil) for business interruption insurance recoverable related to the Entwitle Incident (Note 19). The business interruption insurance recoverable has reduced production costs as a recovery for lost net profit.

4. Inventory

As at	June 28, 2019	December 28, 2018
Wood pellets	**$ 10,518**	$ 8,896
Fibre	**8,715**	7,575
Supplies and spare parts	**9,738**	8,060
	$ 28,971	$ 24,531

Inventory balances include adjustments to measurement estimates and to net realizable value which resulted in write-ups and write-downs. For the 26-week period ended June 28, 2019, fibre inventory reflects a write-down of $306 (June 29, 2018 - $138). The provision related to wood pellets as at June 28, 2019 was $284 (December 28, 2018 - $105). These adjustments are included in production costs in net profit (loss).
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5. Other current assets

As at	June 28, 2019	December 28, 2018
Income tax recoverable	**$ 2**	$ 2
Derivatives - current portion	**1,312**	2,690
Prepaid expenses	**6,359**	2,492
GST recoverable	**1,305**	662
	$ 8,978	$ 5,846

(Amounts in thousands of Canadian dollars unless otherwise stated)

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

	Land, buildings and leasehold improvements	Machinery and other equipment	Construction-in-progress	ROU Assets	**Total**
Cost					
Balance, December 28, 2018	$ 95,609	$ 332,065	$ 30,792	$ -	$ 458,466
Additions	-	-	23,708	39,869	63,577
Reclassification between asset classes	(614)	612	2	-	-
Reclassification to ROU assets	-	(3,208)	-	3,208	-
Disposals and impairments	(56)	(10,677)	(150)	-	(10,883)
Exchange rate movement	(398)	(2,279)	(4)	-	(2,681)
Transfer from construction-in-progress	11,062	20,231	(31,293)	-	-
Balance, June 28, 2019	**$ 105,603**	**$ 336,744**	**$ 23,055**	**$ 43,077**	**$ 508,479**
Amortization					
Balance, December 28, 2018	$ (21,907)	$ (105,660)	$ -	$ -	$ (127,567)
Amortization	(2,552)	(11,721)	-	(3,805)	(18,078)
Reclassification between asset classes	115	(115)	-	-	-
Disposals and impairments	17	1,266	-	-	1,283
Reclassification to ROU assets	-	592	-	(592)	-
Exchange rate movement	102	776	-	-	878
Balance, June 28, 2019	**$ (24,225)**	**$ (114,862)**	**$ -**	**$ (4,397)**	**$ (143,484)**
Carrying Amounts					
At December 28, 2018	$ 73,702	$ 226,405	$ 30,792	$ -	$ 330,899
Balance, June 28, 2019	**$ 81,378**	**$ 221,882**	**$ 23,055**	**$ 38,680**	**$ 364,995**

Disposals and impairments include $9,417 of impairment to machinery and other equipment related to the impairment at the Entwistle plant. At June 28, 2019, PP&E includes $5,198 (December 28, 2018 - $nil) related to the construction-in-progress of rebuilding and repairing damaged machinery and other equipment at the Entwistle plant.

(Amounts in thousands of Canadian dollars unless otherwise stated)

7. Long term debt

As at	**June 28, 2019**	December 28, 2018
Term loan	**$ 280,000**	$ 194,000
Revolver loan	**-**	18,450
Delayed draw	**-**	50,491
	$ 280,000	$ 262,941
Less:		
Revolver loan - current portion	**-**	(18,450)
Term loan - current portion	**(1,400)**	(9,500)
Deferred financing costs	**(4,257)**	(2,566)
	$ 274,343	$ 232,425

As at December 28, 2018, the Company's senior secured debt provided for up to a $50,000 revolving operating line, a $200,000 term loan and a $130,000 delayed draw term loan. On June 14, 2019, the Company amended its senior secured debt, which now provides up to a $65,000 revolving operating line, a $280,000 term loan, and a $185,000 delayed draw term loan (the "Amended Facility"). The Amended Facility has extended the maturity date from December 13, 2022 to 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 June 28, 2019, the $280,000 term loan was in a Canadian dollar Prime-Based loan at 6.45%.

At December 28, 2018, the $194,000 term loan was in a CAD BA loan at 5.03%, the $18,450 revolver loan was in a CAD Prime loan at 5.70% and the $50,491 (USD $37,100) delayed draw was in in a USD BA loan at 8.00%.

At June 28, 2019, the Company had issued letters of credit totaling $1,268 (December 28, 2018 - $1,438).

EBITDA and Adjusted EBITDA are defined in the Amended Facility agreement and used in the calculation of debt covenants and interest rate margins. The primary debt covenants are the Total Funded Debt to Adjusted EBITDA and Fixed Charge Coverage Ratio. The Amended Facility agreement provides for calculation of the debt covenants prior to the application of IFRS 16. The NMTC Debt is not included in the calculation of Total Funded Debt (as defined in the Amended Facility agreement), as it is indemnified by Westervelt and the Company records a NMTC Receivable from Westervelt of an equal amount. As at June 28, 2019 and December 28, 2018, 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.

(Amounts in thousands of Canadian dollars unless otherwise stated)

8. NMTC debt

As at	June 28, 2019	December 28, 2018
NMTC loan	**$ 83,320**	$ 86,392
	$ 83,320	$ 86,392
Less:		
Current portion	**(83,320)**	(1,515)
	$ -	$ 84,877

In 2012 and 2013, WPI LLC received approximately USD $53,000 in net proceeds from financing agreements related to capital expenditures for the Aliceville Facility. This financing arrangement was designed to qualify under the U.S. federal New Markets Tax Credit ("NMTC") program, and was structured with third party financial institutions associated with a U.S. Bank, an investment fund, community development entities majority owned by the investment fund, and a U.S. municipal agency (the "NMTC Investors"). Through this transaction, WPI LLC secured low interest financing from the investment fund.

This transaction also includes the potential for future debt forgiveness, as it contains a put/call feature whereby, at the end of a seven-year compliance period, WPI LLC and its beneficial owners are entitled to repurchase the NMTC Investors' interest in the investment fund. The value attributable to the put price is nominal. Consequently, if exercised, the put could result in the forgiveness of the NMTC Investors' interest in the investment fund.

As at June 28, 2019, WPI LLC has outstanding NMTC debt of approximately USD $63,000 (December 28, 2018 – USD $63,000).

The NMTC Investors are subject to 100% recapture of the credits they receive under the NMTC program for a period of seven years as provided in the U.S. Internal Revenue Code and applicable U.S. Treasury regulations. WPI LLC is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance with applicable requirements could result in the NMTC Investors' projected tax benefits not being realised and, therefore, require WPI LLC to indemnify the NMTC Investor for any loss or recapture of credit under the NMTC program related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

Pursuant to an indemnity agreement entered into as part of the Company's acquisition of interest in the Aliceville Facility, Westervelt has guaranteed WPI LLC's NMTC debt by providing a capital contribution to PWRH LLC of an equal and offsetting amount to the NMTC debt and associated interest payments accrued at the time of the Company's acquisition of interest in PWRH LLC. The NMTC debt is not included in the calculation of Total Funded Debt for bank covenant calculations as it is indemnified by The Westervelt Company ("TWC") and the Company carries the NMTC receivable from TWC of an equal amount.

Pursuant to the put/call feature of the NMTC arrangement, WPI LLC intends to purchase the NMTC Investors' interest in the investment fund at the end of the seven-year compliance period, resulting in the forgiveness of the NMTC debt. This unwinding of all NMTC debt is anticipated to be completed by January 31, 2020.

(Amounts in thousands of Canadian dollars unless otherwise stated)

9. Accounts payable and accrued liabilities

	June 28, 2019	December 28, 2018
Trade and other payables	$ 18,516	$ 15,115
Accrued liabilities	24,720	28,422
	$ 43,236	$ 43,537

10. Other long-term liabilities

	June 28, 2019	December 28, 2018
Decommissioning liabilities	$ 2,507	$ 2,101
Restricted share units liabilities	32	-
Lease liabilities	32,289	2,234
	$ 34,828	$ 4,335

As at June 28, 2019, other long-term liabilities include $32,289 for long-term lease liabilities under IFRS 16. The current obligation for lease liabilities of $6,658 is included in other current liabilities.

Contractual, undiscounted cash flows associated with the Company's lease obligations are as follows:

As at	June 28, 2019
Within one year	$ 9,771
Between one and five years	24,784
Beyond five years	13,519
Total undiscounted lease obligations	$ 48,074

11. Share capital

On March 14, 2019 the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at March 5, 2019

On May 28, 2019, the Company paid a cash dividend of $0.15 per common share to the shareholders of record as at May 17, 2019.

(Amounts in thousands of Canadian dollars unless otherwise stated)

12. Stock-based compensation

Concurrent with the Company's reorganization of its share capital and the closing of the IPO, the Company amended and restated its legacy stock option plan ("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.

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 are designated as replacement awards. As a result of the amendment, the Company recognised $16 and $32, respectively, in stock-based compensation expense for the 13-week and 26-week periods ended June 28, 2019 (13-week and 26-week periods ended June 29, 2018 - $29 and $439, respectively), which represents the incremental fair value of the vested portion of the replacement awards.

Following completion of the IPO, no additional awards are granted under the Legacy Plan.

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

	13-week periods ended				26-week periods ended			
	June 28, 2019[(1)]		June 29, 2018[(1)]		**June 28, 2019[(1)]**		June 29, 2018[(1)]	
	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	**1,560,455**	**$ 8.16**	1,694,983	$ 8.03	**1,594,491**	**$ 8.13**	2,715,376	$ 6.63
Exercised	**-**	**-**	(68,072)	6.48	**(34,036)**	**6.48**	(1,088,465)	6.48
Outstanding, end of period	**1,560,455**	**$ 8.16**	1,626,911	$ 8.09	**1,560,455**	**$ 8.16**	1,626,911	$ 8.09

(1) 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 and 26-week periods ended June 28, 2019, a total of $68 and $170, respectively, was recognised in stock-based compensation in relation to the Legacy Plan (13-week and 26-week periods ended June 29, 2018 - $209 and $798, respectively).

(Amounts in thousands of Canadian dollars unless otherwise stated)

12. Stock-based compensation (continued)

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

For the 13-week and 26-week periods ended June 28, 2019, the Company granted Nil and 422,000 options, respectively (13-week and 26-week periods ended June 29, 2018 - 95,000), 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.

Details of options granted under the Long-term incentive plan and outstanding are as follows:

	13-week periods ended				**26-week periods ended**			
	June 28, 2019		June 29, 2018		**June 28, 2019**		June 29, 2018	
	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	**572,000**	**$ 10.89**	-	$ -	**150,000**	**$ 14.53**	-	$ -
Granted	**-**	**-**	95,000	14.59	**422,000**	**9.60**	95,000	14.59
Outstanding, end of period	**572,000**	**$ 10.89**	95,000	$ 14.59	**572,000**	**$ 10.89**	95,000	$ 14.59

For the 13-week and 26-week periods ended June 28, 2019, a total of $181 and $220, respectively, of stock-based compensation expense (13-week and 26-week periods ended June 29, 2018 - $24) in relation to options granted under the LTIP was included in selling, general and administration expenses.

ii. Restricted share units

During the 13-week and 26-week periods ended June 28, 2019, the Company granted 1,692 and 3,285 RSUs, respectively (13-week and 23-week periods ended June 29, 2018 - Nil and 268,312, respectively), which vest annually on the anniversary of the grant date over a period of three years. These RSUs are to be settled no later than December 31 of the calendar year which is three years from the vesting date.

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

(Amounts in thousands of Canadian dollars unless otherwise stated)

12. Stock-based compensation (continued)

Long-term Incentive Plan (continued)

ii. Restricted share units (continued)

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

	13-week periods ended		26-week periods ended	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
	Number of RSUs	Number of RSUs	**Number of RSUs**	Number of RSUs
Outstanding, beginning of period	**11,172**	-	**271,921**	-
Granted	**1,692**	-	**3,285**	-
Settled	**-**	-	**(262,342)**	-
Outstanding, end of period	**12,864**	-	**12,864**	-

For the 13-week and 26-week periods ended June 28, 2019, a total of $212 and $239, respectively, of stock-based compensation expense (13-week and 26-week periods ended June 29, 2018 - $(57) and $3,557, respectively) was included in selling, general and administration expenses, in relation to RSUs granted under the LTIP.

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 fair value of the options and unvested portion of RSUs liability component Black-Scholes option pricing model is used with the following assumptions:

	Options	RSUs
Dividend yield	**5.33%**	**6.17%**
Expected volatility	**31.82%**	**35.12%**
Risk-free interest rate	**1.55% to 1.87%**	**1.39% to 1.41%**
Expected life	**10 years**	**3.51 to 5.61 years**
Exercise price	**$9.56 to $11.78**	**$ nil**

13. Finance costs

	13-week periods ended		26-week periods ended	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Interest on revolver loan, term debt and delayed draw loan	**$ 4,132**	$ 1,564	**$ 8,169**	$ 3,480
Fair value (gain) loss on derivatives	**1,539**	(1,622)	**3,458**	(3,548)
Realized (gain) loss on derivatives	**(573)**	21	**(1,067)**	58
Unrealized (gain) loss on foreign exchange	**840**	(456)	**928**	(617)
Realized (gain) loss on foreign exchange	**68**	33	**(15)**	96
Amortization of deferred financing fees	**173**	166	**336**	329
Interest on lease liabilities	**578**	-	**1,150**	-
Other	**996**	335	**1,203**	625
	$ 7,753	$ 41	**$ 14,162**	$ 423

(Amounts in thousands of Canadian dollars unless otherwise stated)

14. Income taxes

Income tax expense is recognised at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

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

	13-week periods ended		26-week periods ended	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Income tax (expense) recovery at statutory rate - 27% (2018 - 27%)	**$ (952)**	$ (2,345)	**$ 1,384**	$ 2,641
Increase (decrease) related to:				
Permanent differences and other	**(187)**	163	**(134)**	871
Entities with different tax rates and foreign rate adjustments	**(4)**	-	**(9)**	-
	(1,143)	(2,182)	**1,241**	3,512
Classified as				
Deferred	**(1,143)**	(2,182)	**1,241**	3,512
Income tax (expense) recovery	**$ (1,143)**	$ (2,182)	**$ 1,241**	$ 3,512

15. Earnings per share

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

	13-week periods ended		26-week periods ended	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Net profit (loss) for the year attributable to owners	**$ 1,980**	$ 6,218	**$ (4,012)**	$ (6,415)
Cumulative preferred dividends	**-**	-	**-**	(104)
	$ 1,980	$ 6,218	**$ (4,012)**	$ (6,519)
Net profit (loss) per share (basic and diluted)	**$ 0.06**	$ 0.19	**$ (0.12)**	$ (0.24)
Weighted average of number of shares outstanding (thousands)	**33,300**	32,943	**33,170**	27,490

For 13-week periods ended June 28, 2019 and June 29, 2018, the Company has net profit attributable to owners. The potential impacts of dilutive instruments on earning per share is insignificant.

For 26-week periods ended June 28, 2019 and June 29, 2018, the Company incurred net losses attributable to owners, such that the potential impacts of dilutive instruments were anti-dilutive.

(Amounts in thousands of Canadian dollars unless otherwise stated)

16. Supplemental cash flow information

	13-week periods ended		26-week periods ended	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Accounts receivable	**$ (10,917)**	$ (2,253)	**$ 237**	$ 15,799
Inventory	**1,356**	294	**(5,031)**	1,997
Other current assets	**(370)**	706	**(4,510)**	1,301
Accounts payable and accrued liabilities	**2,214**	(1,725)	**(5,145)**	5,622
Other current liabilities	**303**	(1,579)	**157**	(11,377)
Net change in non-cash operating working capital	**$ (7,414)**	$ (4,557)	**$ (14,292)**	$ 13,342

	13-week periods ended		26-week periods ended	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
PP&E additions during the period	**$ 14,320**	$ 15,522	**$ 23,708**	$ 37,987
PP&E additions from prior period paid during the period	**5,448**	6,578	**2,354**	11,605
PP&E additions in accounts payable & other liabilities	**(5,826)**	(11,581)	**(5,826)**	(11,581)
Purchase of PP&E	**$ 13,942**	$ 10,519	**$ 20,236**	$ 38,011

17. Related parties

Significant shareholder

Based on information provided by ONCAP, as at June 28, 2019, ONCAP beneficially owned, or controlled or directed, directly or indirectly, approximately 31.3% (as at December 28, 2018 – 31.3%) of the issued and outstanding common shares of the Company. ONCAP is ultimately controlled by Onex Corporation.

18. Financial instruments

The Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolver loan and long-term debt are classified as measured at amortised cost. The carrying amounts of these instruments, excluding the revolver loan and long-term debt, approximate their fair values due to their short term to maturity. The carrying amounts of the revolver loan and long term-debt approximate their carrying values, as they bear interest at variable rates based on current market rates.

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

The Company's derivative instruments are classified as measured at fair value through profit and loss ("FVTPL"). IFRS 13, *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritises the inputs to fair value measurement.

(Amounts in thousands of Canadian dollars unless otherwise stated)

18. Financial instruments (continued)

The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly; and,
Level 3 - Inputs that are not based on observable market data.

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

There were no transfers between levels of the fair value hierarchy in the 26-week period ended June 28, 2019. The following table summarizes the Company's financial instruments measured at fair value at June 28, 2019 and December 28, 2018, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

	Fair value hierarchy level	**June 28, 2019**	December 28, 2018
Derivative financial instruments assets (liability)			
USD forward contracts	**Level 1**	**$ 1,940**	$ 5,139
Interest rate swaps	**Level 1**	**(259)**	-
		$ 1,681	$ 5,139

For the 13-week and 26-week periods ended June 28, 2019, the Company recognised a loss of $966 and $2,391, respectively (13-week and 26-week periods ended June 29, 2018 – gain of $1,601 and $3,490, respectively), on derivative financial instruments in net profit (loss).

The outstanding notional amounts of the derivative contracts, their contractual maturities and fair values are as follows:

Particulars	**Notional amount**	**Average forward rate**	**Less than 1 year**	**Greater than 1 year**	**Fair value asset**
As at June 28, 2019					
USD Forward Contracts	**$ 45,150**	**1.2554**	**$ 25,625**	**$ 19,525**	**$ 1,940**
As at December 28, 2018					
USD Forward Contracts	$ 51,775	1.2556	$ 25,800	$ 25,975	$ 5,139

(Amounts in thousands of Canadian dollars unless otherwise stated)

18. Financial instruments (continued)

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 outstanding notional amounts of the interest rate swap contracts, their contractual maturities and fair values are as follows:

Particulars	Notional amount	Average swap fix rate	Less than 1 year	Greater than 1 year	Fair value liability
As at June 28, 2019					
Interest rate swaps used for hedging	**$ 100,000**	**1.748%**[(1)]	**$ -**	**$ 100,000**	**$ 259**

(1) Prime rate of the variable interest rate has been fixed with the swap. Under the terms of the Company's Amended Facility, the Company is still required to pay the agreed margin.

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

As at	Type of derivatives	June 28, 2019	December 28, 2018
Other current assets	USD forward contracts	**$ 1,312**	$ 2,690
Other long-term assets	USD forward contracts	**628**	2,449
Other long-term liabilities	Interest rate swaps	**(259)**	-
		$ 1,681	$ 5,139

19. 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 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.

For the 13-week and 26-week periods ended June 28, 2019, an insurance recovery of $9,500 and $12,500, respectively (13-week and 26-week periods ended June 29, 2018 - $nil) has been recorded for the property damage claim and business interruption for the Entwistle Incident. The Company is in discussions with its insurers on further recoveries which will be recorded when determined.

(Amounts in thousands of Canadian dollars unless otherwise stated)

20. 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 26-week period ended June 28, 2019, three of these customers represented 86.73% of the Company's total revenue. For the 26-week period ended June 29, 2018, three of these customers represented 76.87% 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.

21. 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		**26-week periods ended**	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Finished wood pellets	**$ 102,238**	$ 83,167	**$ 190,460**	$ 152,427
Port services	**1,926**	1,917	**3,331**	3,679
	$ 104,164	$ 85,084	**$ 193,791**	$ 156,106

	13-week periods ended		**26-week periods ended**	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Europe	**$ 90,397**	$ 74,783	**$ 159,786**	$ 119,997
Asia	**10,277**	8,182	**25,206**	29,313
North America	**3,490**	2,119	**8,799**	6,796
	$ 104,164	$ 85,084	**$ 193,791**	$ 156,106

22. Other income (expenses)

	13-week periods ended		**26-week periods ended**	
	June 28, 2019	June 29, 2018	**June 28, 2019**	June 29, 2018
Settlement of damage claims	**$ -**	$ -	**$ 6,461**	$ -
Other	**(337)**	135	**421**	362
	$ (337)	$ 135	**$ 6,882**	$ 362

On January 18, 2019, the Company reached a settlement on a damage claim it was pursuing against certain of its equipment suppliers for net proceeds of $6,461 in the Company's favour. For the 13-week and 26-week periods ended June 28, 2019, net proceeds from the settlement of $nil and $6,461, respectively (13-week and 26-week periods ended June 29, 2018 - $nil) was included in other income.

23. Subsequent events

On August 5 and 6, 2019, USD $53,730 of NMTC debt was repaid by WPI LLC. This represents all of the federal portion of the NMTC debt, and reduces each of the amounts payable and receivable against the NMTC debt.

On July 4, 2019, the Company entered into a limited partnership agreement with Tolko Industries Ltd. ("Tolko") to build a new industrial wood pellet production facility in Alberta (the "Facility"). Pinnacle and Tolko will each own 50% in the Facility. The Facility, which will be built on land owned by Tolko, will begin construction in the third quarter of 2019. Initial wood pellet production at the Facility is expected to commence in the fourth quarter of 2020. The capital cost of the Facility is expected to be approximately $54,000, with 50 percent funded by Pinnacle and 50 percent by Tolko.