



**Buhler Industries Inc.**

---

Corporate Office  
1260 Clarence Avenue,  
Winnipeg, Manitoba, Canada  
R3T 1T2  
Phone (204) 661-8711  
Fax (204) 654-2503

## **NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The financial statements of Buhler Industries Inc. (the Company) and the accompanying interim consolidated balance sheets as at December 31, 2018 and 2017 and the interim consolidated statements of loss, retained earnings and cash flows for the three month periods then ended are the responsibility of the Company's management. These consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

---

Yury Ryazanov  
Chief Executive Officer  
February 14, 2019

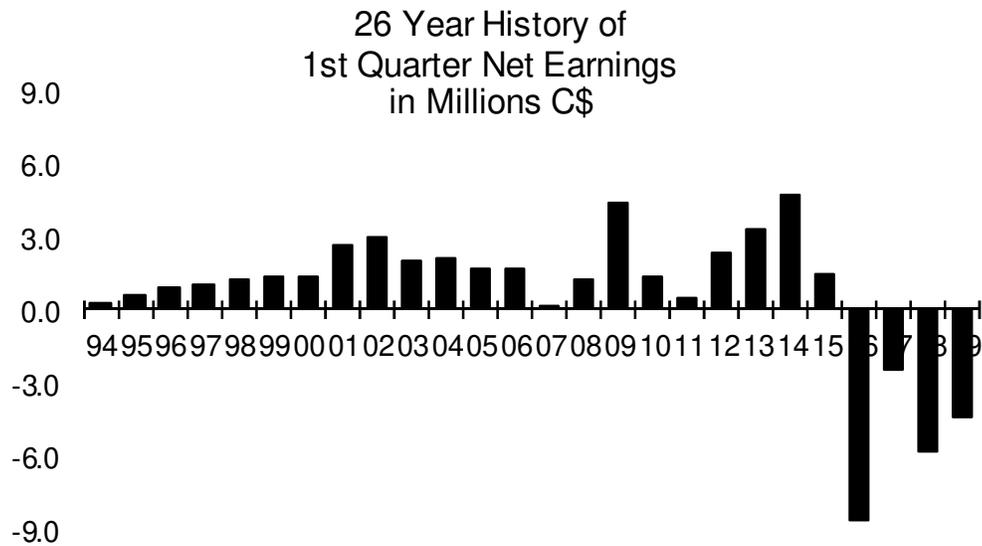
---

Willy Janzen, CPA, CGA, B.Comm.  
Chief Financial Officer  
February 14, 2019

# bühler

## First Quarter Report

December 31, 2018



**A Leading Manufacturer and Distributor of Farm Equipment**

# Management Discussion & Financial Analysis

Certain statements made in the following Management's Discussion and Analysis contain forward-looking statements including, but not limited to, statements concerning possible or assumed future results of operations of Buhler Industries Inc. (the Company). Forward-looking statements represent the Company's intentions, plans, expectations and beliefs, and are not guarantees of future performance. Such forward-looking statements represent the Company's current views based on information as at the date of this report. They involve risks, uncertainties and assumptions and the Company's actual results could differ, which in some cases may be material, from those anticipated in these forward-looking statements. Unless otherwise required by applicable securities law, the Company disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions investors not to place undue reliance upon forward-looking statements.

## Company Overview

The Company is headquartered in Winnipeg, Manitoba, Canada. Established in 1932 as an agricultural equipment manufacturer, the original company was purchased by John Buhler in 1969. Through expansion, new products and acquisitions, the Company has experienced progress and steady growth.

Over the years, many brands have joined Buhler Industries: Farm King, Ezee-On, Allied, Inland and Versatile. Today the Company operates several modern manufacturing plants and distribution centers. Factories in Morden and Winnipeg (Manitoba), Vegreville (Alberta), Fargo (North Dakota) and Willmar (Minnesota) build tractors, sprayers, front-end loaders, augers, snow blowers, mowers, seeding and tillage equipment, compact implements and more. In addition, the Company maintains several well-stocked parts warehouses.

In 2007, Combine Factory Rostselmash Ltd, a major combine manufacturer located in Rostov-on-Don, Russia, acquired 80% of the common shares of the Company. The Company continues to grow with additional investment in engineering, research and development and production. The dealer/distribution network in North America remains steady, however the Rostselmash network adds more than 200 dealers in Russia, Ukraine and Kazakhstan that provides for additional sales growth into the future.

Buhler Industries remains committed to continuous product improvement and incorporating new value-added features. That tradition of excellence will continue well into the future.

## Ten Year Highlights *In thousands of Canadian dollars (except per share amounts)*

Year ended Sept. 30	2009 GAAP	2010 GAAP	2011 IFRS	2012 IFRS	2013 IFRS	2014 IFRS	2015 IFRS	2016 IFRS	2017 IFRS	2018 IFRS
Revenue	284,072	209,634	279,495	357,749	340,349	325,521	245,676	274,067	311,974	<b>287,984</b>
Gross profit	51,258	37,356	42,297	54,858	57,318	47,730	22,266	21,226	36,153	<b>3,474</b>
GP%	18.0%	17.8%	15.1%	15.3%	16.8%	14.7%	9.1%	7.7%	11.6%	<b>1.2%</b>
Income from operations	32,283	18,263	21,588	31,750	34,789	22,491	(4,012)	(4,668)	9,387	<b>(22,505)</b>
As percentage of revenue	11%	9%	8%	9%	10%	7%	(2%)	(2%)	3%	<b>(8%)</b>
Net earnings	14,388	8,180	11,917	16,363	19,891	12,458	(5,316)	(2,677)	520	<b>(49,532)</b>
Earnings per share (EPS)	0.57	0.33	0.48	0.65	0.80	0.50	(0.21)	(0.11)	0.02	<b>(1.98)</b>
EBITDA	26,710	14,206	22,131	27,247	34,927	24,081	(6,489)	561	7,249	<b>(28,792)</b>
Total assets	193,817	197,203	241,355	250,569	283,403	362,844	339,029	278,415	319,739	<b>290,378</b>
Working capital	93,073	101,199	120,827	130,863	141,365	148,223	130,989	122,974	120,987	<b>81,826</b>
Shareholders' equity	124,465	132,645	144,562	160,925	180,816	193,274	187,958	185,281	185,801	<b>136,269</b>
Book value per share	4.98	5.31	5.78	6.44	7.23	7.73	7.52	7.41	7.43	<b>5.45</b>
Return on average capital	12%	6%	8%	10%	11%	6%	(3%)	(1%)	0%	<b>(31%)</b>
Return on average equity	12%	6%	9%	11%	12%	7%	(3%)	(1%)	0%	<b>(31%)</b>

In this table, IFRS refers to the International Financial Reporting Standards. GAAP refers to the Canadian Generally Accepted Accounting Principles that were the standard until 2011.

# Management Discussion & Financial Analysis

## General Information

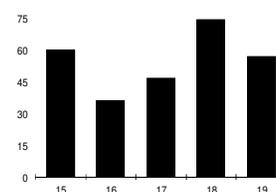
The following discussion and analysis dated February 14, 2019 was prepared by management and should be read in conjunction with the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The following discussion and analysis is presented in millions of Canadian dollars except where otherwise noted. The consolidated financial statements include the accounts of all subsidiaries. All subsidiaries in the United States operate with the U.S. dollar as the functional currency, while the Company and all its Canadian subsidiaries operate with the Canadian dollar as the functional currency.

## Highlights

### Revenue

Revenue for the quarter was \$57.3, down from \$74.6 in the first quarter of 2018. The sales levels for the Company continue to be depressed due to weak commodity prices. Sales to Canada and the United States are down from the prior years while sales to other regions including Eastern Europe were flat year to year.

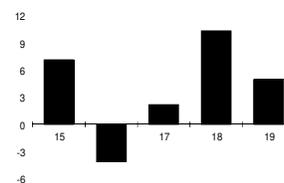
Sales (millions C\$)



### Gross Profit

Gross profit for the quarter was \$5.0 compared with \$10.4 in the first quarter of the prior year. As a percentage of sales, gross profits were 8.7%, down from 13.9% realized in same period of 2018. Decreased revenues in the quarter was the largest contributing factor in the decrease in margin.

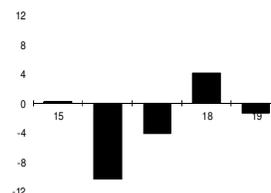
Gross Profit (millions C\$)



### Income from Operations

Income from operations came in at (\$1.4), a decrease of \$5.5 from the income from operations of \$4.1 seen in the prior year's first quarter, primarily due to the decrease in gross profit. Selling and administration expenses were consistent year to year at \$6.3. As a percentage of sales, selling and administration was 11.1%, compared with the prior year percentage of 8.4%, due to the decrease in revenue.

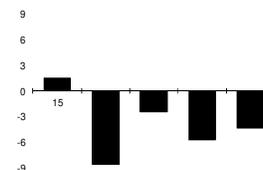
Income from Operations (millions C\$)



### Net Loss

The net loss for the quarter was \$4.4, compared with \$5.8 for the same period in 2018. The decline in income from operations due to decreased margin, increased interest expense and foreign exchange losses were offset by increases in gains on disposal of assets and decreased research and development spending. In the prior year the Company took a \$5.8 write down in tax assets due to a major reduction of the corporate tax rate in the United States, which was not repeated in the current year.

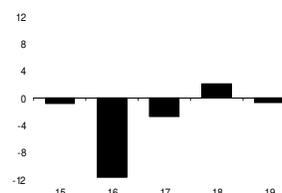
Net Earnings (millions C\$)



### EBITDA

EBITDA is the earnings before interest, income taxes, depreciation and amortization, and is considered to be a useful measure of the cash flow from operations of the Company. EBITDA for 2018 was (\$0.6), down \$2.7 from the prior year's first quarter of \$2.1. The change was due primarily to the decrease in income from operations in the current year, offset by the gain on sale of excess assets in the year.

EBITDA (millions C\$)

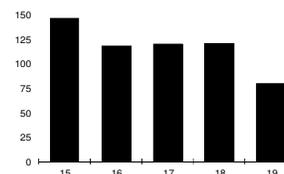


# Management Discussion & Financial Analysis

## Working Capital

Working capital is a measure of company's ability to discharge its current obligations by using its current assets. The Company continues to be in a strong position as the working capital at quarter end was \$79.7, down from same period in the prior year. Decreases in accounts receivable of \$22.0, inventories of \$7.2, prepaid expenses of \$1.3 and increases in accounts payable and accrued liabilities of \$17.1 as well as advances from related party of \$8.1 were offset by decreases in bank indebtedness of \$14.4.

Working Capital (millions C\$)



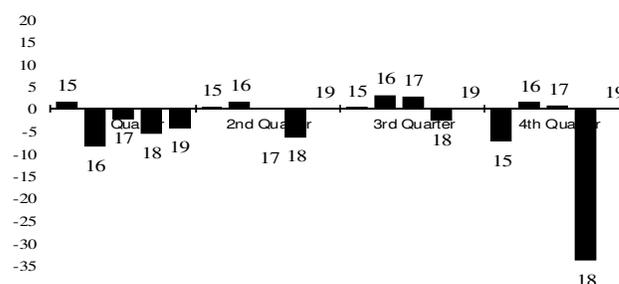
## Research and Development

Consistent with the Company's strategy over the past several years, the Company continues to invest in the development of new products for the future so expenditures for research and development continued to be high. In the first quarter of 2019 the Company spent \$2.1, a decrease of \$1.2 from the prior year first quarter. Management believes this strategy will maintain the Company's competitive position in the marketplace.

## Quarterly Net Earnings Results (000's C\$)

	2015	2016	2017	2018	2019
1st Q	\$ 1,512	\$ (8,694)	\$ (2,440)	\$ (5,798)	\$ (4,444)
2nd Q	387	1,534	(251)	(6,554)	
3rd Q	264	3,062	2,581	(2,876)	
4th Q	(7,479)	1,421	630	(34,304)	
Total	\$ (5,316)	\$ (2,677)	\$ 520	\$ (49,532)	\$ (4,444)

## Net Quarterly Income (millions C\$)



### Summary of Quarterly Results

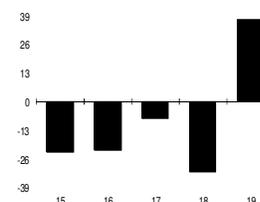
Sales for the first quarter decreased as the markets continue to be depressed due to low commodity prices. Revenue for the quarter of \$57.3 generated a gross profit of \$5.0. With the decline in sales levels in the quarter the Company experienced lower gross margins, as well as increased interest expense and foreign exchange losses. Offsetting this was increased gains on sale of surplus assets and reduced research and development costs. In the prior year there was a significant write down in deferred income tax assets due to a reduction in the corporate tax rate in the United States that did not repeat in 2018.

## Cash Flow and Capital Resources

### Operating Activities

Bank indebtedness for the quarter was \$30.1, compared to \$37.3 at September 30, 2018. Decreases in accounts receivable of \$3.1 and increases in accounts payable and accrued liabilities of \$9.7 were offset by increases in inventories of \$11.8.

Net Cash Flow (millions C\$)



### Inventory Turns

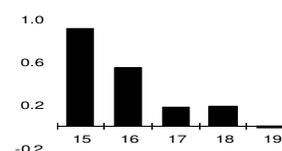
Management has diligently worked to control the investment in inventory in order to keep a strong cash position. In order to meet an expected demand in tractors, the company has increased its inventory of finished units. This has been coupled with the decrease in sales in the quarter, which has led to a decline in the inventory turns, going from 1.35 in the first quarter of 2018 to the current year's 1.14, a decline of 14.9%.

# Management Discussion & Financial Analysis

## Investing Activities

Cash (used) received during the quarter for investing activities was \$2.0, compared to (\$0.4) in the first quarter of 2018. Current first quarter capital purchases were minimal, being offset by proceeds on sale of capital assets of \$2.1. In the prior year the Company spent \$0.5 on capital purchases, while receiving minimal amounts for the sale of surplus assets.

Asset Purchases (millions C\$)



## Financing Activities

The Company had an inflow of cash of \$9.8, due to decreases in advances to a related party of \$2.2, increases in advances from a related party of \$6.7 and foreign exchange of \$0.9. In the first quarter of 2018 the company saw an inflow of cash of \$0.4, consisting of decreases in long term receivables of \$0.1, advances to a related party of \$0.2 and a loss on foreign exchange of \$0.1.

## Resources

In order for the Company to operate and grow, continued funding resources are required. The Company has several options for funding available to it such as cash in the bank, cash provided by operations and acquiring new debt. Under the current agreements in place, the Company has access to \$60.0 Canadian in credit facilities.

## Risks and Financial Instruments

The Company recognizes that net earnings are exposed to changes in market interest rates, foreign exchange rates, prices of raw materials and risks regarding the financial condition of customers. These market conditions are regularly monitored and actions are taken when appropriate. Despite the methods employed to manage these risks, future fluctuations in interest rates, exchange rates, raw material costs and customers condition can be expected to impact net earnings.

The Company may enter into fixed-rate debt to minimize the risk associated with interest rate fluctuations. In addition, the Company may employ hedging programs to minimize foreign exchange risks associated with the changes in the value of the Canadian dollar relative to the U.S. dollar. To the extent possible, the Company maximizes natural currency hedging by matching inflows from sales in either currency with outflows of costs and expenses denominated in the same currency. A portion of the remaining exposure to fluctuations in exchange rates may be mitigated with forward and option contracts.

The Company currently has a variable interest bank credit facility. Should future cash requirements result in additional debt be taken on, management would evaluate the financing options available at that time and take a course of action that is in the best interests of the Company in the long term. Currently, all of the financing needs of the Company are being met by the bank credit facility, which carries a low rate of variable interest.

With respect to foreign exchange, the Company manages risk by use of the natural hedge that exists between the U.S. dollar denominated accounts receivables and accounts payable. Where a large difference in this hedge is anticipated, forward foreign exchange contracts may be entered into to mitigate the risk. Purchases of foreign exchange products for the purpose of speculation are not permitted. Transactions are only conducted with certain approved financial institutions. Fluctuations in foreign exchange rates represent a material exposure for the Company's financial results. Hedging programs employed may mitigate a portion of exposures to short-term fluctuations in foreign currency exchange rates. The Company's financial results over the long term will be affected by sizeable changes in the value of the Canadian dollar relative to the U.S. dollar.

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The Company assesses the credit quality of customers, taking into account their financial position, past experience and other factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases, insures accounts receivable balances against credit losses. Nonetheless, unexpected deterioration in the financial condition of a customer can have a negative impact on net earnings in the case of default.

# Management Discussion & Financial Analysis

---

## *Looking Forward*

Sales for 2019 are expected to be less than 2018 results. The Company expects to significantly reduce its losses in 2019 as it focuses on margin improvement. The Company has already reduced overhead costs at the beginning of the year through staff reductions and other cost cutting measures. After making significant investments product development over the last few years, the Company is excited to start shipping its new tractor platform in early 2019 with horsepower ranging from 170 to 250 horsepower. In the first quarter, the controlling shareholder provided a \$5 million U.S. loan to the Company and is willing to provide financial support until profitability improves.

## *Critical Accounting Estimates*

The Company believes the following accounting estimates are critical to determining and understanding the operating results and the financial position of the Company.

*Allowance for doubtful accounts.* The Company estimates allowances for potential losses resulting from the inability of customers to make required payments of accounts receivable. Additional allowances may be required if the financial condition of any customer deteriorates.

*Allowance for inventory obsolescence.* The Company estimates allowances for potential losses resulting from inventory becoming obsolete and that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change.

*Impairment of property, plant and equipment and intangible assets.* An integral component of impairment testing is determining the asset's recoverable amount. The determination of the recoverable amount involves significant management judgment, including projections of future cash flows and the appropriate discount rates. The cash flows are derived from financial forecasts and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates could result in a material change in the recoverable amount.

*Contingencies and litigation.* Should a lawsuit or claim be brought against the Company, management would assesses the potential financial exposure of the Company. In assessing any probable losses, the amount of possible insurance recoveries will be projected. The Company accrues such liabilities when a loss becomes probable and the net amount of the loss can reasonably be estimated. Due to the inherent uncertainties relating to the eventual outcome of litigation and potential insurance recovery, certain matters could ultimately be resolved for amounts materially different to provisions or disclosures previously made by the Company.

*Warranty obligation.* The Company offers warranties for its sale of equipment. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labor costs.

*Income taxes.* Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

# Management Discussion & Financial Analysis

## *Critical Accounting Estimates - continued*

### *Income taxes - continued*

The Company makes claims for Scientific Research and Experimental Development (SRED) expenditures which are included in deferred taxes. The amounts recorded are based on the Company's interpretation of the Income Tax Act of Canada provisions which govern the eligibility of SRED costs. The claims may be subject to review by the Canada Revenue Agency (CRA) before refunds are received. Actual collection may be materially different than what is recorded in the financial statements. The Company is currently challenging CRA in court in regards to certain of its SRED credits and believes that it will be successful in defending its SRED claim. The Company's SRED credits are recorded on the balance sheet after review of the relevant accounting pronouncements.

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at each consolidated balance sheet date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The operations and organizational structure of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company approaches uncertain tax positions from a liability or exposure perspective. The Company provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

### *Disclosure Controls and Internal Controls*

#### Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on management's evaluation of the design and effectiveness of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 31, 2018 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.

#### Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Based on management's design and testing of the effectiveness of the Company's internal controls over financial reporting, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 31, 2018 to provide reasonable assurance that the financial information being reported is materially accurate. During the period ended December 31, 2018, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

# Consolidated Balance Sheet

<i>Unaudited (000's C\$)</i>	<b>December 31, 2018</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>			
<b>Current Assets</b>			
Accounts receivable	\$ 55,191	\$ 58,272	\$ 77,226
Income taxes receivable	2,825	2,802	1,380
Inventories (note 8)	183,453	171,612	190,745
Prepaid expenses	2,522	2,810	3,841
<b>Total Current Assets</b>	<b>243,991</b>	<b>235,496</b>	<b>273,192</b>
Property, plant and equipment (note 9)	19,827	20,733	19,757
Long term receivables	-	-	987
Advances to related party (note 10)	-	2,173	2,344
Deferred income tax assets (note 11)	26,945	26,240	30,927
Interests in joint ventures and other entities (note 12)	5,805	5,736	5,393
<b>Total Assets</b>	<b>\$ 296,568</b>	<b>\$ 290,378</b>	<b>\$ 332,600</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Bank indebtedness (note 7)	\$ 30,079	\$ 37,254	\$ 44,469
Accounts payable and accrued liabilities	110,777	101,049	93,727
Income taxes payable	1,031	592	55
Advances from related party (note 10)	22,398	14,775	14,319
<b>Total Current Liabilities</b>	<b>164,285</b>	<b>153,670</b>	<b>152,570</b>
Deferred income tax liabilities (note 11)	35	38	27
Long term debt (note 13)	423	401	-
<b>Total Liabilities</b>	<b>164,743</b>	<b>154,109</b>	<b>152,597</b>
<b>Shareholders' Equity</b>			
Share capital (note 14)	30,000	30,000	30,000
Retained earnings	101,825	106,269	150,003
<b>Total Shareholders' Equity</b>	<b>131,825</b>	<b>136,269</b>	<b>180,003</b>
<b>Total Liabilities and Equity</b>	<b>\$ 296,568</b>	<b>\$ 290,378</b>	<b>\$ 332,600</b>

*Approved on behalf of the Board:*

**Director:**

Yury Ryazov  
Chief Executive Officer  
February 14, 2019

**Director:**

Dmitry Udras  
Chairman of the Board  
February 14, 2019

## Consolidated Statement of Comprehensive Loss

<i>Unaudited three months ended December 31 (000's C\$)</i>	<b>2018</b> (note 23)	2017
<b>Revenue</b> (note 10)	<b>\$ 57,330</b>	\$ 74,571
Cost of goods sold (note 10)	<u>52,366</u>	<u>64,181</u>
<b>Gross Profit</b>	<b>4,964</b> 8.7%	10,390 13.9%
Selling & administration expenses	<u>6,347</u> 11.1%	<u>6,295</u> 8.4%
<b>Income (Loss) from Operations</b>	<b>(1,383)</b> (2.4%)	4,095 5.5%
Gain on disposal of assets	<b>(2,089)</b>	(9)
Interest income	<b>(221)</b>	(160)
Interest expense	<b>2,384</b>	1,591
Gain on foreign exchange	<b>388</b>	(326)
Share of income from interests in joint ventures and other entities	<b>(72)</b>	(126)
Research and development costs	<u>2,073</u>	<u>3,269</u>
<b>Net Loss Before Taxes</b>	<b>(3,846)</b> (6.7%)	(144) (0.2%)
Current income taxes (note 11)	<b>1,306</b>	524
Deferred income taxes (recovered) (note 11)	<u>(708)</u>	<u>5,130</u>
Total income taxes	<u>598</u>	<u>5,654</u>
<b>Net Loss and Comprehensive Loss</b>	<b>\$ (4,444)</b> (7.8%)	<b>\$ (5,798)</b> (7.8%)

## Consolidated Statement of Change in Shareholders' Equity

<i>For the periods ended December 31 (000's C\$ except per share amounts)</i>	<b>2018</b>	2017
<b>Capital Stock, beginning and end of period</b>	<b>\$ 30,000</b>	\$ 30,000
<b>Retained Earnings, beginning of period</b>	<b>106,269</b>	155,801
Net loss and comprehensive loss for the period	<u>(4,444)</u>	<u>(5,798)</u>
<b>Retained Earnings, end of period</b>	<u>101,825</u>	<u>150,003</u>
<b>Shareholders' Equity, end of period</b>	<b>\$ 131,825</b>	\$ 180,003
<b>Loss per share</b>		
Basic and fully diluted	<b>\$ (0.18)</b>	\$ (0.23)

# Consolidated Statement of Cash Flows

Unaudited three months ended December 31 (000's C\$)

2018 2017

## Cash provided by (used in) operating activities

Net loss and comprehensive loss	\$ (4,444)	\$ (5,798)
Add (deduct) non-cash items		
Depreciation of property, plant and equipment	824	701
Gain on disposal of assets	(2,089)	(9)
Loss (gain) on foreign exchange	388	(326)
Deferred income taxes (recovered)	(708)	5,130
Share of income from interests in joint ventures and other entities	(72)	(126)
	<u>(6,101)</u>	<u>(428)</u>

## Net change in non-cash working capital balances (note 18)

(193) (31,162)

(6,294) (31,590)

## Investing activities

Purchase of property, plant and equipment	(45)	(458)
Proceeds on sale of property, plant and equipment	2,082	39

2,037 (419)

## Financing activities (note 19)

Decrease in long term receivable	-	58
Advances to related party	2,214	242
Advances from related party	6,731	1
Foreign exchange loss on the above items	872	51

9,817 352

## Foreign exchange gain (loss) on bank indebtedness

1,615 (259)

## Net cash provided (used) in the period

7,175 (31,916)

## Bank indebtedness, beginning of period

(37,254) (12,553)

## Bank indebtedness, end of period

\$ (30,079) \$ (44,469)

# Notes to Consolidated Financial Statements

## 1. Basis of Operations

Buhler Industries Inc. (the Company) was incorporated under the laws of Canada on February 1, 1994. On March 24, 1994 the Company was listed and posted for trading on the TSX under the stock exchange symbol "BUI". The address of the registered office is 1260 Clarence Avenue, Winnipeg, Manitoba.

The Company, through its subsidiaries and a joint venture, has manufacturing and warehousing facilities in Canada and the United States of America (U.S.). The Company produces farm equipment for sale in Canada, U.S. and overseas.

## 2. Basis of Presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards.

The Company's functional currency is the Canadian dollar. The Canadian dollar is the reporting currency as much of the Company's business, as well as the majority of the Company's financing, is conducted in Canadian dollars.

The consolidated financial statements have been prepared under the historical-cost convention, except that certain financial instruments are stated at their fair value.

The consolidated financial statements were approved by the Board of Directors on February 14, 2019.

## 3. Significant Accounting Policies

### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its active wholly-owned subsidiaries; Buhler Versatile Inc., Buhler Trading Inc., B.I.I. Fargo, Inc., Buhler Versatile (USA) Inc., Implement Sales Co. Inc., Haskett Properties Inc., ISCO Inc., Progressive Manufacturing Ltd., John Buhler Inc. and Amarillo Service and Supply Inc. Control exists when the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Company holds 100% of the voting rights of the subsidiaries, and therefore controls these entities. The financial statements of all subsidiaries are prepared as of the same reporting date using consistent accounting policies. All inter-company balances and transactions, including any unrealized profits arising from inter-company transactions have been eliminated.

### (b) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred by the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition costs incurred are expensed and included in general and administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in the statement of income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

### (c) Foreign currency translation

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Nonmonetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined. Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns, rebates and discounts, and after the elimination of intercompany sales. Revenue is recognized when the risks and rewards of ownership have transferred to the customer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, or there is continuing management involvement with the goods. Interest income is recognized as earned. Management uses historical experience to estimate and provide for discounts and returns. Volume rebates are assessed based on annual purchases.

## 3. Significant Accounting Policies - continued

### (e) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of variable and fixed overheads based on normal operating capacity. Any excess, unallocated, fixed overhead costs are expensed as incurred. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories are written down to net realizable value if net realizable value declines below carrying amount. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

### (f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes any directly attributable costs, borrowing costs on qualifying construction projects, and the costs of dismantling and removing the items and restoring the site on which they are located. When major components of an item of property and equipment have different useful lives, they are accounted for as separate items. Depreciation is calculated using the following methods to allocate the cost of assets less their residual values over their estimated useful lives as follows:

Buildings	4 to 5%	Straight line
Equipment	20 to 100%	Declining balance
Computer equipment	30 to 100%	Declining balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Assets under construction and land are not depreciated.

Leases of property, plant and equipment on terms that transfer substantially all of the benefits and costs of ownership are accounted for as finance leases. All other leases of property, plant and equipment are accounted for as operating leases.

### (g) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recorded directly to equity, in which case it is recognized directly in equity.

Current income tax expense is the expected income tax payable on the taxable income for the period, using income tax rates enacted or substantively enacted in the jurisdictions the Company is required to pay income tax at the reporting date, and any income adjustments to income taxes payable in respect of previous periods. Current income tax expense is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and by the availability of unused income tax losses.

Deferred tax expense is recognized using the balance sheet method in which temporary differences are calculated based on the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities for income taxation purposes. Deferred tax is not recognized for the following temporary timing differences: the initial recognition for both goodwill and assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the income tax rates that are expected to be applied when the temporary difference reverses, that is, when the asset is realized or the liability is settled, based on the income tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

Current tax assets and liabilities are offset when the Company and its subsidiaries have a legally enforceable right to offset the amounts and intend to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax balances relate to the same income tax authority.

### (h) Research and development expenses

The company expenses all research costs as they are incurred unless they meet the criteria for deferral in accordance with IAS 38 Intangible Assets. No such development costs have been deferred to date.

### (i) Interest in joint ventures and other entities

The Company accounts for its interest in joint ventures using the equity method. Interests in other entities where there is no significant influence are recorded at fair value.

### (j) Cash/bank indebtedness

Cash/bank indebtedness includes cash on hand, bank overdrafts and bankers acceptances. Bank overdrafts are repayable on demand. Bank overdrafts and bankers acceptances form an integral part of the Company's cash management and are included as a component of cash/bank indebtedness for the purpose of the statement of cash flows.

# Notes to Consolidated Financial Statements

## 3. Significant Accounting Policies - continued

### (k) Financial Instruments

Under IFRS, financial instruments are classified into one of the following five categories: fair value through profit or loss (FVTPL), held to maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet, which are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost.

The Company's financial instruments are classified as follows: a) cash and cash equivalents (bank indebtedness) - loans and receivables, b) accounts and other receivables - loans and receivables c) accounts payable and accrued liabilities - other financial liabilities, d) interests in other entities - fair value through profit and loss, e) derivatives - fair value through profit and loss and f) long term debt - other liabilities. All financial instruments are included in the consolidated balance sheet and are measured at fair value except loans and receivables and other financial liabilities, which are measured at amortized cost.

All changes in fair value are recorded to the statement of comprehensive income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

FVTPL financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

### (l) Derivative financial Instruments

The Company operates principally in Canada and the United States, which gives rise to risks that its income and cash flows may be adversely impacted by fluctuations in foreign exchange rates. The Company enters into foreign currency forward contracts to manage foreign exchange exposures on accounts receivable expected to be recovered in U.S. dollars.

The fair value of each contract is included on the consolidated balance sheet within derivative financial instrument assets or liabilities, depending on whether the fair value was in an asset or liability position. Changes in fair value are recognized in the consolidated statement of comprehensive income through gains/losses on foreign exchange.

### (m) Comprehensive Income

Comprehensive income includes all changes in equity of the Company, except those resulting from investments by shareholders and dividends paid. Comprehensive income is the total of net income and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that require recognition, but are excluded from net income. The Company does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the year.

### (n) Impairment

#### Impairment of non-financial assets

Tangible assets and definite life intangible assets are reviewed at each balance sheet date to determine whether events or conditions indicate that their carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For tangible and intangible assets excluding goodwill, the CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

#### Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at their original effective interest rate. All impairment losses are recognized in the consolidated statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

## 4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may, by definition, not equal the actual results. The estimates and assumptions that are critical to the determination of carrying value of assets and liabilities are addressed below.

### (a) Sales discounts

The Company provides certain sales discounts on some sales that may be settled after year end. An estimate of these amounts that may be payable is accrued, but may vary based on the programs in place at the time of settlement.

## 4. Critical Accounting Estimates and Judgments - continued

### (b) Allowance for doubtful accounts:

The Company estimates allowances for potential losses resulting from the inability of customers to make required payments of trade receivables. Additional allowances may be required if the financial condition of any customer deteriorates.

### (c) Allowance for inventory obsolescence:

The Company estimates allowances for potential losses resulting from inventory becoming obsolete and that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change.

### (d) Impairment of property, plant and equipment and intangible assets:

An integral component of impairment testing is determining the asset's recoverable amount. The determination of the recoverable amount involves significant management judgment, including projections of future cash flows and the appropriate discount rates. The cash flows are derived from financial forecasts and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates could result in a material change in the recoverable amount.

No impairment losses were recognized in the first quarter of fiscal years 2018 or 2017.

### (e) Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. Management plans to take all necessary steps to utilize deferred tax attributes before they expire and believe they have a plan that ensures they will ultimately fully utilize these attributes. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company makes claims for Scientific Research and Experimental Development (SRED) expenditures which are included in deferred taxes. The amounts recorded are based on the Company's interpretation of the Income Tax Act of Canada provisions which govern the eligibility of SRED costs. The claims may be subject to review by the Canada Revenue Agency (CRA) before refunds are received. Actual collection may be materially different than what is recorded in the financial statements. The Company is currently challenging CRA in court in regards to certain of its SRED credits and believes that it will be successful in defending its SRED claim. The Company's SRED credits are recorded on the balance sheet after review of the relevant accounting pronouncements (note 11).

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at each consolidated balance sheet date. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The operations and organizational structure of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company approaches uncertain tax positions from a liability or exposure perspective. The Company provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

### (f) Provision for warranty costs

The Company offers warranties for its sale of equipment. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labor costs.

# Notes to Consolidated Financial Statements

## 5. Accounting Standards Implemented in 2019 (000's C\$)

The following accounting standards came into effect commencing in the 2019 fiscal year:

### (a) Financial Instruments

The Company has adopted IFRS 9 with a date of initial application of October 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model.

The standard contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at October 1, 2018 had no impact on the measurement of financial instruments, which are summarized in the following table:

Financial Asset/Liability	IAS 39	IFRS 9	IAS 39/IFRS 9 Carrying Value
Bank indebtedness	Loans and receivables	Amortized cost	\$(37,254)
Accounts receivable	Loans and receivables	Amortized cost	58,278
Interest in other entities	FVTPL	FVTPL	156
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	(101,049)
Advances from related parties	Other liabilities	Amortized cost	(14,775)
Long term debt	Other liabilities	Amortized cost	(401)

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated (see note 21) and applied from October 1, 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending September 30, 2019. The Company has adopted IFRS 9 retrospectively and accordingly the comparative figures do not reflect the requirements of IFRS 9. The adoption of IFRS 9 did not result in any transition adjustments being recognized as at October 1, 2018.

### (b) Revenue From Contracts With Customers

The Company has adopted IFRS 15 with a date of initial application of October 1, 2018. IFRS 15 includes a single, five-step revenue recognition model that requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard also requires more informative, relevant disclosures. IFRS 15 supersedes IAS 11 "Construction Contracts" and IAS 18 "Revenue", as well as various IFRIC and SIC interpretations regarding revenue.

The Company has applied IFRS 15 using the cumulative effect method (without practical expedients) and therefore the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The adoption of IFRS 15 did not result in any transition adjustments being recognized as at October 1, 2018.

### (c) Foreign Currency Transactions and Advance Consideration

In December 2016, IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" was issued to clarify the date that should be used for translation when a foreign currency transaction involves an advance receipt or payment. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Interpretation was implemented in the first quarter of 2019 with prospective application and had no impact on the Company's unaudited interim condensed consolidated financial statements.

## 6. Future Accounting Standards

The following recently issued accounting pronouncements represent a summary of the pronouncements that are likely to, or may at some future time, have an impact on the Company.

## 6. Future Accounting Standards - continued

### (a) Leases

IFRS 16 "Leases" was issued in January 2016, providing a single model for leases. The new standard introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. As a result, most leases will be recognized on the statement of financial position. Certain exemptions will apply for short-term leases and leases for low-value assets. Lessors will continue to classify leases as operating and finance leases. IFRS 16 replaces IAS 17 "Leases" and the related interpretations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted under certain conditions. The Company is currently assessing the impact of this new standard and does not intend to early adopt IFRS 16 in its consolidated financial statements.

### (b) Uncertainty over Income Tax Treatments

In June 2017, IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" was issued and aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. While the Company is currently assessing the impact of the Interpretation, management does not expect IFRIC 23 to have a significant impact on the Company's consolidated financial statements and does not expect to early adopt the Interpretation.

## 7. Credit Facilities (000's C\$)

The Company has available a financing facility in the amount of \$60,000. This facility is an asset-based credit agreement with the Canadian Imperial Bank of Commerce. The credit facility is secured by a general security agreement and assignment of specific receivables and inventory in Canada and the U.S. The financing facility is at Bankers Acceptance and/or LIBOR rates plus stamping fees. At December 31, 2018, the amount drawn on this facility is \$45,549, (September 30, 2018 - \$42,281). Cash balances of \$15,470 has been netted with the facility (September 30, 2018 - \$5,027).

## 8. Inventories (000's C\$)

	Dec. 31 2018	Sept. 30 2018
Raw materials	\$ 62,751	\$ 59,675
Work in process	3,889	3,401
Finished goods	116,813	108,536
	<b>\$ 183,453</b>	<b>\$ 171,612</b>

During the period, inventories in the amount of \$36,221 (2018 - \$48,169) were expensed to cost of sales, which included inventory recoveries of \$2,871 (2018 - write-downs \$377).

The carrying value of inventories is pledged as security against the Company's credit facilities.

## 9. Property, Plant and Equipment (000's C\$)

	Land	Buildings	Equipment	Computer equipment	Total
Cost	\$ 3,315	\$ 28,694	\$ 59,014	\$ 7,667	\$ 98,690
Accumulated depreciation	-	(17,781)	(53,697)	(7,186)	(78,664)
<b>Sept. 30, 2017 net book value</b>	<b>3,315</b>	<b>10,913</b>	<b>5,317</b>	<b>481</b>	<b>20,026</b>
Additions	396	523	3,098	782	4,799
Disposals	(38)	(474)	(273)	-	(785)
Depreciation	-	(916)	(2,164)	(227)	(3,307)
<b>Sept. 30, 2018 net book value</b>	<b>3,673</b>	<b>10,046</b>	<b>5,978</b>	<b>1,036</b>	<b>20,733</b>
Additions	-	(243)	288	-	45
Disposals	(116)	-	(10)	(1)	(127)
Depreciation	-	(229)	(522)	(73)	(824)
<b>Dec. 31, 2018 net book value</b>	<b>\$ 3,557</b>	<b>\$ 9,574</b>	<b>\$ 5,734</b>	<b>\$ 962</b>	<b>\$ 19,827</b>

Recorded as:

	Land	Buildings	Equipment	Computer equipment	Total
Cost	\$ 3,673	\$ 28,556	\$ 60,869	\$ 8,437	\$ 101,535
Accumulated depreciation	-	(18,510)	(54,891)	(7,401)	(80,802)
<b>Sept. 30, 2018 net book value</b>	<b>\$ 3,673</b>	<b>\$ 10,046</b>	<b>\$ 5,978</b>	<b>\$ 1,036</b>	<b>\$ 20,733</b>
Cost	\$ 3,557	\$ 28,313	\$ 61,076	\$ 8,436	\$ 101,382
Accumulated depreciation	-	(18,739)	(55,342)	(7,474)	(81,555)
<b>Dec. 31, 2018 net book value</b>	<b>\$ 3,557</b>	<b>\$ 9,574</b>	<b>\$ 5,734</b>	<b>\$ 962</b>	<b>\$ 19,827</b>

The Company reviewed its property, plant and equipment for indicators of impairment. No assets were identified as impaired.

Included in property, plant and equipment is \$718 of equipment not being depreciated as the assets are not yet in use (September 30, 2018 - \$720).

# Notes to Consolidated Financial Statements

10. Related Party Transactions (000's C\$)	Dec. 31 2018	Sept. 30 2018
Accounts receivable from controlling shareholder	\$ 3,930	\$ 10,847
Advances to controlling shareholder	-	2,173
Accounts payable to controlling shareholder	2,684	2,630
Advances from controlling shareholder	22,398	14,775
	<b>Q1 2019</b>	<b>Q1 2018</b>

Net sales to controlling shareholder	\$ 4,242	\$ 7,555
Net purchases from controlling shareholder	282	230

The advances from the controlling shareholder of \$16,424 USD (September 30, 2018 - \$11,414 USD) bears interest at 4.0% and are due on demand.

## Compensation of Key Management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors and Executive Committee are key management personnel. The following table details the compensation paid to these key management personnel (note - no amounts were paid for post-retirement benefits nor were there any share based payments):

	Q1 2019	Q1 2018
Salaries, fees and short term employee benefits	\$ 793	\$ 561

## 11. Income Taxes (000's C\$)

	Q1 2019	Q1 2018
Current year	\$ 1,309	\$ 524
Adjustment for prior years	(3)	-

Current income tax provision	<u>\$ 1,306</u>	<u>\$ 524</u>
------------------------------	-----------------	---------------

Origination and reversal of timing differences	\$ (565)	\$ (418)
Effect of tax rate change on deferred tax assets and liabilities	-	5,784
SR&ED credits earned	<u>(143)</u>	<u>(236)</u>

Deferred tax (recovery)	<u>\$ (708)</u>	<u>\$ 5,130</u>
Combined Canadian federal and provincial income tax rate	27.0%	27.0%

Change in foreign tax rate	-	(3,995.8)
Foreign tax rate differences applied to profits (losses)	(47.8)	(10.2)
SR&ED credits earned	3.7	163.0
Non-taxable foreign exchange	-	49.6
Non-taxable portion of capital gains	0.9	(1.7)
Foreign exchange effect on foreign future tax assets	-	(117.6)
Permanent differences and other	<u>0.7</u>	<u>(20.3)</u>

Effective income tax rate	<u>(15.5%)</u>	<u>(3,906.0%)</u>
---------------------------	----------------	-------------------

Income taxes paid during the period were \$1,037 (Q1 2018 - \$3,197).

Deferred income taxes are recorded to reflect the timing differences arising from deduction of warranty costs for income tax purposes, the amounts of depreciation and amortization provided in the year compared to the allowances deducted for income tax purposes, taxable losses carried forward to future periods, expected Scientific Research and Experimental Development (SRED) tax credit claims and other temporary timing differences.

The following are the components of the deferred tax assets and liabilities recognized by the Company:

Deferred income tax assets	Dec. 31 2018	Sept. 30 2018
Property, plant, equipment and intangibles	\$ 328	\$ 169
Warranty	1,584	1,584
SRED credits	7,478	7,335
Taxable losses carried forward to future periods	18,125	17,530
Temporary timing differences	(570)	(378)
	<u>\$ 26,945</u>	<u>\$ 26,240</u>

Deferred income tax liabilities	Dec. 31 2018	Sept. 30 2018
Property, plant, equipment and intangibles	\$ 35	\$ 38

## 11. Income Taxes (000's C\$) - continued

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

A deferred tax asset of \$18,125 in Canada (September 30, 2018 - \$17,530) has been recorded in excess of the tax losses carried forward to future periods. Income projections support the conclusion that the deferred tax asset is probable of being realized and consequently it has been recognized.

During the first quarter of 2018, the Company took a \$5,784 write down on certain future tax assets due to a recent tax rate reduction in the U.S. While this has created a non-cash loss in the year, the Company expects the rate reduction to be beneficial in future periods as the tax payments in profitable periods will be reduced. In the fourth quarter of 2018 the U.S. deferred tax assets were derecognized as a result of continued losses in the U.S.

The current value of all SRED claims net of estimated taxes and allowances is \$7,478 (September 30, 2018 - \$7,335). The Company's claims for SRED credits for the tax years 2005 - 2011 (\$5,506) are currently being challenged by Canada Revenue Agency (CRA). The claim for 2005 will be reviewed by tax court, while claims for 2006 and 2007 are being held in abeyance by CRA pending the outcome of the 2005 claim. Tax years 2008 through to 2011 have received refunds in the amount of \$440 during the prior year and the assessments for these years will be appealed. Final settlement for these claims may take several years to resolve.

The 2012, 2013 and 2014 claims (\$2,206) were approved and paid out by CRA during a prior year. The 2015 and 2016 claims have been filed with CRA, and the 2017, 2018 and 2019 SRED claims (\$2,412) have been accrued and will be filed with CRA prior to any filing deadlines. The Company's SRED credits are recorded on the balance sheet after review of the relevant accounting pronouncements.

## 12. Interests in Joint Ventures and Other Entities (000's C\$)

The Company has a joint venture operating as Bradley Steel Processors Inc. and miscellaneous minority interests in various entities.

The summarized financial information of the Company's share of the investments in joint ventures and other entities is as follows:

Balance sheet information	Dec. 31 2018	Sept. 30 2018
<b>Assets</b>		
Current	\$ 6,055	\$ 5,873
Non-current	173	171
Total Assets	<u>\$ 6,228</u>	<u>\$ 6,044</u>
<b>Liabilities</b>		
Current	\$ 423	\$ 308
Non-current	-	-
Total Liabilities	<u>423</u>	<u>308</u>
<b>Equity</b>	<u>5,805</u>	<u>5,736</u>

<b>Total Liabilities and Equity</b>	<u>\$ 6,228</u>	<u>\$ 6,044</u>
-------------------------------------	-----------------	-----------------

Income statement information	Q1 2019	Q1 2018
Revenues	\$ 1,133	\$ 872
Profit from continuing operations	\$ 97	\$ 166
Net income and comprehensive income	\$ 72	\$ 121

## Other information

Dividends received from joint ventures and other entities	\$ 3	\$ -
Depreciation	\$ 2	\$ 1
Income tax expense	\$ 25	\$ 45

## 13. Long term debt (000's C\$)

The Company's long term debt consists of an amount of \$423 (September 30, 2018 - \$401) due to The City of Willmar. This amount bears interest at the annual rate of the implicit price deflator for Minnesota and is due June 2025. Some or all of these amounts will be forgiven should the Company meet certain employment targets.

# Notes to Consolidated Financial Statements

## 14. Capital Stock and Options (000's C\$)

Authorized, an unlimited number of Class A & B common shares.

	December 31, 2018		Sept. 30, 2018	
	Shares		Shares	
Issued Class A common	25,000	\$ 30,000	25,000	\$30,000

There are no options outstanding as of December 31, 2018 nor September 30, 2018.

## 15. Interest Paid (000's C\$)

	Q1 2019	Q1 2018
Operating loan	\$ 2,186	\$ 1,412
Long term debt	162	146
	<b>\$ 2,348</b>	<b>\$ 1,558</b>

Interest expense includes interest on bank indebtedness, long term debt, floor plan interest and interest on taxes payable.

## 16. Expenses by nature (000's C\$)

	Q1 2019	Q1 2018
Raw materials and consumables used	\$ 41,672	\$ 54,394
Depreciation and amortization	824	701
Personnel expenses	16,320	16,985
Freight	1,970	1,665
	<b>\$ 60,786</b>	<b>\$ 73,745</b>

## 17. Segmented Information (000's C\$)

	Q1 2019			
	Canada	U.S.	CIS	Other
Revenue	\$ 26,716	\$ 16,255	\$ 8,202	\$ 6,157
Net loss and comprehensive loss	(2,070)	(1,261)	(636)	(474)
Property, plant, and equipment	13,325	6,235	167	-

	Q1 2018			
	Canada	U.S.	CIS	Other
Revenue	\$ 34,601	\$ 24,954	\$ 8,497	\$ 6,519
Net income and comprehensive income	(7)	(5,789)	(1)	(1)
Property, plant and equipment	12,894	6,696	167	-

CIS is the Commonwealth of Independent States, including Russia, Kazakhstan and Ukraine.

The Company has organized its business between agricultural and non-agricultural operations due to the differences in the products and approaches in marketing and manufacturing in both segments. The agricultural equipment segment produces a wide variety of agricultural equipment, whereas the non-agricultural operations consist primarily of custom metal fabrication.

	Q1 2019		Q1 2018	
	Ag	Non-Ag	Ag	Non-Ag
Revenue	\$ 57,208	\$ 107	\$ 74,464	\$ 107
Interest income	122	-	151	9
Interest expense	2,384	-	1,591	-
Net income and comprehensive income	(6,200)	1,756	(5,911)	113
Assets	288,088	8,480	321,497	11,103

The accounting policies of the segments are the same as described in the significant accounting policies. The Company accounts for inter-segment sales at current market prices. Revenue from the top two customers were \$10.3 million and \$5.2 million, both in the agricultural segments. For the same period of fiscal 2018, the top two customers were \$7.6 million and \$5.3 million, also both in the agricultural segments.

## 18. Changes in non-cash working capital (000's C\$)

Details of changes in non-cash working capital for the period are as follows:

	Q1 2019	Q1 2018
Accounts receivable	\$ 3,081	\$ (8,614)
Inventories	(11,841)	(9,834)
Prepaid expenses	288	(5)
Accounts payable and accrued liabilities	9,728	(10,609)
Income taxes receivable/payable	416	(2,563)
Foreign exchange loss on the above items	(1,865)	463
	<b>\$ (193)</b>	<b>(\$31,162)</b>

## 19. Cash Flow Changes from Financing Activities (000's C\$)

Details of changes in financing activities for the period are as follows:

	Long term debt	Advances from related party	Total
<b>September 30, 2017</b>	\$ -	\$ 14,245	\$ 14,245
Cash flows	385	-	385
Foreign exchange loss	16	530	546
<b>September 30, 2018</b>	<b>401</b>	<b>14,775</b>	<b>15,176</b>
Cash flows	-	6,731	6,731
Foreign exchange loss	22	892	914
<b>December 31, 2018</b>	<b>\$ 423</b>	<b>\$ 22,398</b>	<b>\$ 22,821</b>

## 20. Capital Management

The Company's fundamental objectives in managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, ensure adequate liquidity and financial flexibility at all times, and deploy capital to provide an appropriate investment return to its shareholders while maintaining prudent levels of financial risk. The Company believes that the aforementioned objectives are appropriate in the context of the Company's business.

The Company defines its capital as cash, bank indebtedness, shareholders' equity, long-term debt including the current portion, net of any cash and cash equivalents. The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, raise debt (secured, unsecured, convertible and/or other types of available debt instruments), enter into hedging arrangements and refinance existing debt with different characteristics, amongst others.

The Company constantly monitors and assesses its financial performance and economic conditions in order to ensure that its net debt levels are prudent.

The Company's financial objectives and strategy are reviewed on an annual basis. The Company believes that its ratios are within reasonable limits, in light of the relative size of the Company and its capital management objectives.

There are no externally imposed capital restrictions on the Company.

There were no changes in the Company's approach to capital management during the year.

## 21. Financial Instruments (000's C\$)

The following presents the carrying value and fair value of the Company's financial instruments:

Financial Asset/Liability	Classification	December 31, 2018
		Carried at cost/ Amortized cost
		Carrying/ Fair Value
Bank indebtedness	Amortized cost	\$ (30,079)
Accounts receivable	Amortized cost	55,191
Advances to related parties	Amortized cost	-
Interest in other entities	FVTPL	156
Accounts payable and accrued liabilities	Amortized cost	(110,777)
Advances from related parties	Amortized cost	(22,398)
Long term debt	Amortized cost	(423)
		September 30, 2018
		Carried at cost/ Amortized cost
		Carrying/ Fair Value
Bank indebtedness	Amortized cost	\$ (37,254)
Accounts receivable	Amortized cost	58,272
Advances to related parties	Amortized cost	2,173
Interest in other entities	FVTPL	156
Accounts payable and accrued liabilities	Amortized cost	(101,049)
Advances from related parties	Amortized cost	(14,775)
Long term debt	Amortized cost	(401)

Financial instruments include cash/bank indebtedness, accounts receivable, derivative financial instruments, long term receivables, interests in other entities not subject to significant influence, accounts payable and accrued liabilities, advances from related party and long term debt. Except for the long term receivables, interests in other entities and long term debt, the carrying values of these financial instruments approximate fair value due to the short term nature of the financial instruments or they are carried at fair value.

The Company has classified its interest in other entities as FVTPL. These shares are not actively traded in a quoted market and accordingly fair value has been estimated to be cost.

# Notes to Consolidated Financial Statements

## 21. Financial Instruments (000's C\$) - continued

The fair value of the derivative financial instruments has been estimated based on current market rates for such vehicles, which is impacted by the current exchange rate between the Canadian and U.S. dollars. The estimated fair value of the derivative financial instruments as at December 31, 2018 is \$Nil (September 30, 2018 - \$Nil).

The fair value of the long term receivables and long term debt is impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments.

The fair value of long term receivables has been estimated based on the current market rates for long term bonds with similar terms and conditions. The estimated fair value of long term receivable as at December 31, 2018 is \$Nil (September 30, 2018 - \$Nil).

The Company categorizes its fair value measurements of financial instruments according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data. The fair values of other entities and long term receivables are disclosed at fair value based on a level 2 classification.

Level 3 – fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable data, including assumptions about risk. The Company does not have any financial instruments measured at fair values based on level 3 inputs.

## 22. Financial Risk Management (000's C\$)

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Company's approved policies, established for that purpose. In addition, as required, these risks are reviewed with the Company's Board of Directors.

### *Interest Rate Risk*

The Company's interest rate risk arises from its variable rate bank indebtedness and long term debt. The long-term debt is either interest-free or very low rate, and therefore carries minimal interest rate risk. As the bank indebtedness is all variable rate, the Company is exposed to a certain level of interest rate risk. Management feels that these risks are manageable as the interest rate on this debt is less than prime and therefore has not entered into any instruments to mitigate this risk. Based on the level of bank indebtedness outstanding at December 31, 2018, a 1% increase/decrease in the rate being charged to the Company would result in a \$471 (Q1 2018 - \$268) decrease/increase in net earnings.

### *Commodity Price Risk*

The Company's manufacturing costs are affected by the price of raw materials, namely steel. In order to manage its risk, the Company applies a steel surcharge to its product when the cost of steel increases significantly. The Company's preferred practice is to match raw materials cost changes with selling price adjustments, although there is a time lag. This matching is not always possible, as customers react to selling price pressures related to raw material price fluctuations according to conditions pertaining to their markets.

### *Foreign Exchange Risk*

The Canadian dollar is the Company's functional currency. The Company operates primarily in Canada and the United States. The reporting currency of the Company is Canadian dollars, whereas the functional currency for operations in the United States and sales to the CIS region are the U.S. dollar. Fluctuations in the exchange rate between the U.S. dollar and Canadian dollar will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars have been relatively stable.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. These foreign exchange gains and losses are recorded in revenues. As a result of the Company's U.S. dollar net monetary position within the Canadian dollar reporting currency operations through to December 31, 2018, a one-cent strengthening/weakening in the year-end foreign exchange rate from Canadian dollars to U.S. dollars would have decreased/increased net earnings by \$290 (Q1 2018 - \$519).

# Notes to Consolidated Financial Statements

## 22. Financial Risk Management (000's C\$) - continued

The Company's exposure to foreign currency risk reported in U.S. dollars was as follows:

	Dec. 31, 2018	Sept. 30, 2018
Trade and other receivables	\$ 41,671	\$ 40,944
Advances to related party	-	1,678
Trade and other payables	(10,347)	(4,615)
Advances from related party	(16,424)	(11,414)
Long term debt	(301)	(310)
	<u>\$ 14,599</u>	<u>\$ 26,283</u>

### Credit Risk

The Company is insulated from large foreign exchange gains and losses by virtue of its mix of cash inflows and outflows in U.S. dollars. Gains and losses generated by fluctuations in the exchange rates used to translate U.S. dollar assets are offset by similar gains and losses on U.S. dollar liabilities. The Company also uses forward contracts to further mitigate these fluctuations when the natural hedges are forecasted to be insufficient.

As at December 31, 2018, the Company had no U.S. to Canadian dollar foreign currency forward contracts with a notional amount of U.S. \$Nil in place (September 30, 2018 - \$Nil). Fair value adjustments are recognized within (gain) loss on foreign exchange in the consolidated statement of comprehensive income.

The 2019 requirements for capital expenditures, working capital and debt repayments can be financed from cash resources, cash flow provided by operating activities and unused credit facilities. The following table outlines the maturity analysis of the Company's financial liabilities:

	2019	2020	2021	2022	2023	Post 2023	Total
Accounts payable and accrued liabilities	\$ 110,777	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,777
Due to related party	22,398	-	-	-	-	-	22,398
Long term debt	-	-	-	-	-	423	423
<b>Total</b>	<b>\$ 133,175</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 423</b>	<b>\$ 133,598</b>

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

## 22. Financial Risk Management (000's C\$) - continued

The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases insures accounts receivable balances against credit losses.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income within selling and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the statement of comprehensive income.

The following table sets out the aging details of the Company's accounts receivable balances outstanding based on the status of the receivable in relation to when the receivable was due and payable and related allowance for doubtful accounts:

	Dec. 31, 2018	Sept. 30, 2018
Current - neither impaired nor past due	\$ 40,372	\$ 46,445
Not impaired but past the due date:		
Within 30 days	2,706	2,350
31-60 Days	3,073	2,605
Over 60 days	9,338	7,885
	<u>55,489</u>	<u>59,285</u>
Less: Allowance for doubtful accounts	(298)	(1,013)
Total receivables, net	<u>\$ 55,191</u>	<u>\$ 58,272</u>

The following table details the continuity of the allowance for doubtful accounts:

	Q1 2019	Q1 2018
Balance, beginning of year	\$ (286)	\$ (286)
Provisions for the year, net of recoveries	-	-
Uncollectible amounts written off	-	-
Foreign exchange impact	(12)	(1)
Balance, end of year	<u>\$ (298)</u>	<u>\$ (287)</u>

## 23. Subsequent Event (000's)

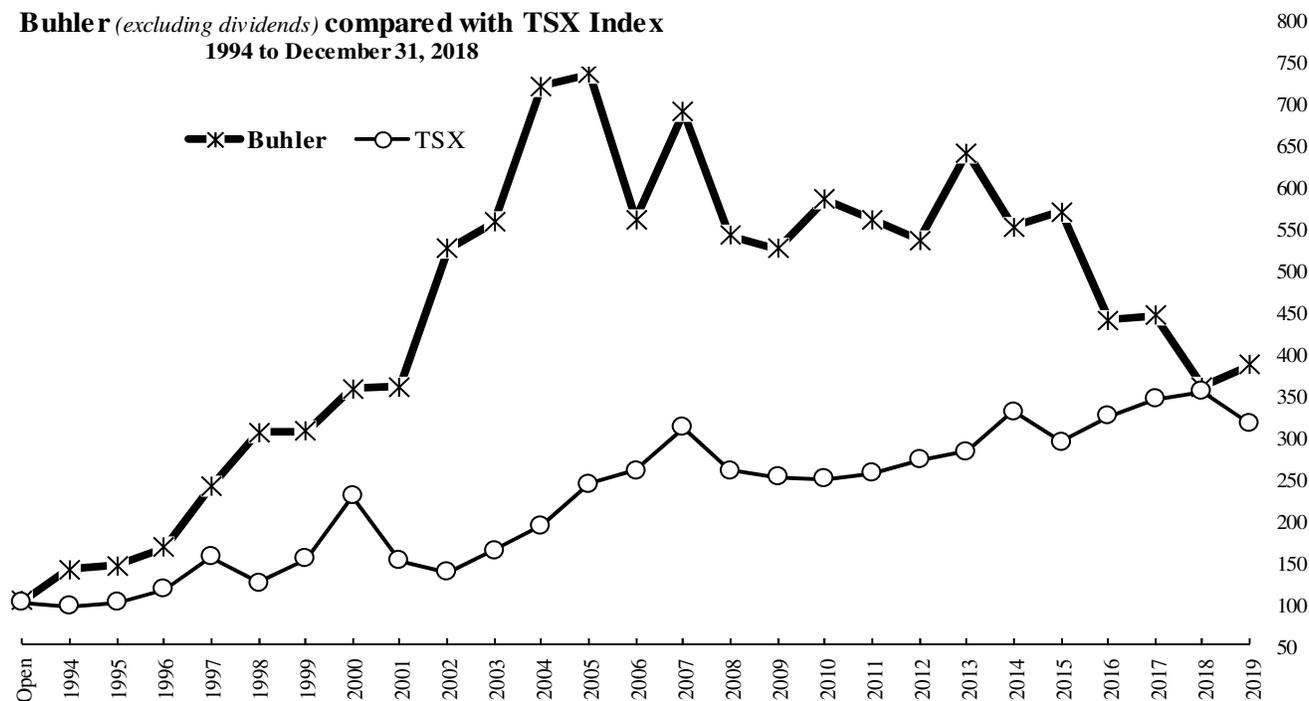
Subsequent to year end, the Company sold intellectual property in the amount of \$10,000 USD to the parent company for Tier III Row Crop Tractors.

# Directors, Officers and Senior Management

Name	Office	Principal Occupation
Dmitry Udras	Chairman/Officer	Member and Co-owner of Novoe Sodrugestvo Ltd.
Yury Ryazanov	Director/Chief Executive Officer	Vice President and Co-owner of Novoe Sodrugestvo Ltd.
Konstantin Babkin	Director	President and Co-owner of Novoe Sodrugestvo Ltd.
Oleg Gorbunov	Director	Adviser to the CEO of LLC "VGT-Invest"
Allan Stewart, <i>B.A., LL.B.</i>	Director	Lawyer, Thompson Dorfman Sweatman LLP
John Buhler	Director	President, Highland Park Financial Inc.
Grant Adolph, <i>P.Mgr</i>	Officer/Director	Chief Operating Officer, Buhler Industries Inc.
Marat Nogerov	Officer	President, Buhler Industries Inc.
Maxim Loktionov	Officer	Vice President, Buhler Industries Inc.
Willy Janzen, <i>CPA, CGA, B.Comm.</i>	Officer	Chief Financial Officer, Buhler Industries Inc.
Adam Reid	Management	Vice President Sales & Marketing
Tricia Willems	Management	Director of Sales - Farm King
Alexey Nikitenko	Management	Vice President - Farm King
Min Lee, <i>I.S.M.</i>	Management	Chief Information Officer, Buhler Industries Inc.
Todd Trueman, <i>C.I.M., P.Mgr., C.Mgr.</i>	Management	Director of Human Resources, Buhler Industries Inc.

## Stock Data

**Buhler (excluding dividends) compared with TSX Index**  
1994 to December 31, 2018



# Ten Year Summary

<b>SUMMARY OF OPERATIONS</b>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Reported standards utilized	GAAP	GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
In thousands of Canadian dollars (except per share amounts)										
Revenue	284,072	209,634	282,728	361,234	340,349	325,501	245,676	274,067	311,974	<b>287,984</b>
Cost of goods sold	232,814	172,278	239,488	305,480	283,031	277,791	223,410	252,841	275,821	<b>254,510</b>
Gross profit	51,258	37,356	43,240	55,754	57,318	47,730	22,266	21,226	36,153	<b>3,474</b>
Selling & admin. expense	18,975	19,093	20,897	23,292	22,529	25,239	26,278	25,894	26,766	<b>25,979</b>
Income from operations	32,283	18,263	22,343	32,462	34,789	22,491	(4,012)	(4,668)	9,387	<b>(22,505)</b>
Gain on sale of capital assets	(3,247)	(3,477)	(1,184)	(1,213)	(74)	(401)	(114)	(8,160)	(4,066)	<b>(2,381)</b>
Interest income	-	-	(557)	(553)	(300)	(314)	(376)	(332)	(332)	<b>(511)</b>
Interest expense	1,148	1,407	3,004	3,507	4,459	3,741	3,345	4,315	5,926	<b>7,894</b>
Amortization	4,070	3,584	-	-	-	-	-	-	-	-
Foreign exchange (gain) loss	-	-	(1,940)	2,705	(3,586)	(3,497)	(200)	(789)	1,152	<b>622</b>
Share of income of joint venture	-	-	-	-	(605)	(628)	(473)	(780)	(521)	<b>(481)</b>
Research & development exp.	8,820	7,534	7,480	8,375	8,533	8,663	8,323	8,739	9,604	<b>12,345</b>
Net earnings before taxes	21,492	9,215	15,540	19,641	26,362	14,927	(14,517)	(7,661)	(2,376)	<b>(39,993)</b>
Income taxes (expense)	(7,104)	(1,035)	(3,623)	(3,278)	(6,471)	(2,469)	(9,201)	(4,984)	(2,896)	<b>9,539</b>
<b>NET EARNINGS</b>	<b>14,388</b>	<b>8,180</b>	<b>11,917</b>	<b>16,363</b>	<b>19,891</b>	<b>12,458</b>	<b>(5,316)</b>	<b>(2,677)</b>	<b>520</b>	<b>(49,532)</b>
<b>CASH FLOW SUMMARY</b>										
Capital asset purchases	2,088	4,039	9,662	2,444	5,857	4,639	3,216	2,785	2,963	<b>4,799</b>
Long term debt incurred	807	2,437	17,068	-	-	-	-	-	-	<b>385</b>
Reduction of long term debt	1,305	1,368	1,550	5,949	2,139	3,191	4,968	2,642	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Net cash flow	18,958	11,295	16,287	21,203	24,336	17,871	(633)	1,230	4,219	<b>(46,225)</b>
Net cash (bank indebtedness)	(6,591)	(4,772)	(10,515)	19,293	24,160	(51,715)	(52,830)	(20,452)	(12,553)	<b>(37,254)</b>
<b>BALANCE SHEET SUMMARY</b>										
Cash, receivables and prepaid expenses	68,764	57,573	74,422	79,849	85,491	102,473	80,555	73,680	73,983	<b>63,884</b>
Inventory	87,731	102,573	126,998	131,703	153,325	213,089	201,463	142,372	180,911	<b>171,612</b>
Total current assets	156,495	160,146	201,420	211,552	238,816	315,562	282,018	216,052	254,894	<b>235,496</b>
Total assets	193,817	197,203	241,733	250,755	283,403	362,844	339,029	278,415	319,739	<b>290,378</b>
Total current liabilities	63,422	58,947	78,065	78,624	97,451	167,339	151,029	93,078	133,907	<b>153,670</b>
Total short and long term debt	1,198	2,189	17,695	11,746	9,607	6,857	2,669	-	-	<b>401</b>
Total liabilities	69,352	64,558	97,171	89,830	102,587	169,570	151,071	93,134	133,938	<b>154,109</b>
Total shareholders equity	124,465	132,645	144,562	160,925	180,816	193,274	187,958	185,281	185,801	<b>136,269</b>
Shares outstanding (avg. in millions)	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	<b>25.0</b>
Working capital	93,073	101,199	123,355	132,928	141,365	148,223	130,989	122,974	120,987	<b>81,826</b>
<b>DATA PER COMMON SHARE</b>										
Revenue	\$ 11.36	\$ 8.39	\$ 11.31	\$14.45	\$13.61	\$13.02	\$9.83	\$10.96	\$12.48	<b>\$11.52</b>
EBITDA	1.07	0.57	0.89	1.10	1.41	0.96	(0.26)	0.02	0.27	<b>(1.15)</b>
Price to EBITDA	4.9	10.2	6.3	4.9	4.5	5.7	(22.0)	196.1	16.6	<b>(3.1)</b>
EBIT	0.91	0.42	0.72	0.90	1.23	0.73	(0.46)	(0.15)	0.13	<b>(1.30)</b>
Net earnings	0.57	0.33	0.48	0.65	0.80	0.50	(0.21)	(0.11)	0.02	<b>(1.98)</b>
Price to earnings	9.21	17.61	11.75	8.17	8.04	11.06	(24.81)	(41.09)	213.94	<b>(1.82)</b>
Cash flow	0.76	0.45	0.65	0.85	0.97	0.71	(0.03)	0.05	0.17	<b>(1.85)</b>
Dividends paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>
Closing share price	5.25	5.81	5.60	5.35	6.40	5.51	5.70	4.40	4.45	<b>3.60</b>
Shareholders' equity	4.98	5.31	5.78	6.44	7.23	7.73	7.52	7.41	7.43	<b>5.45</b>
<b>STATISTICAL DATA</b>										
Current ratio	2.5	2.7	2.6	2.7	2.5	1.9	1.9	2.3	1.9	<b>1.5</b>
Interest bearing debt/ equity ratio	0.1	0.2	0.1	0.1	0.1	0.3	0.3	0.1	0.1	<b>0.3</b>
Inventory turnover	2.7	1.8	1.9	2.4	2.0	1.5	1.1	1.5	1.7	<b>1.6</b>
Gross margin (% of revenue)	18.0%	17.8%	15.3%	15.4%	16.9%	14.7%	9.1%	7.7%	11.6%	<b>1.2%</b>
Selling & Admin. (% of revenue)	7%	9%	7%	6%	7%	8%	11%	9%	9%	<b>9%</b>
EBITDA (% of revenue)	9%	7%	8%	8%	10%	7%	(3%)	0%	2%	<b>(10%)</b>
Net earnings (% of revenue)	5%	4%	4%	5%	6%	4%	(2%)	(1%)	0%	<b>(17%)</b>
Return on average capital	12%	6%	8%	10%	11%	12%	(3%)	(1%)	0%	<b>(31%)</b>
Return on average equity	12%	6%	9%	11%	12%	13%	(3%)	(1%)	0%	<b>(31%)</b>