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## **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 March 31, 2019 and 2020 and the interim consolidated statements of loss, retained earnings and cash flows for the three and six 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.

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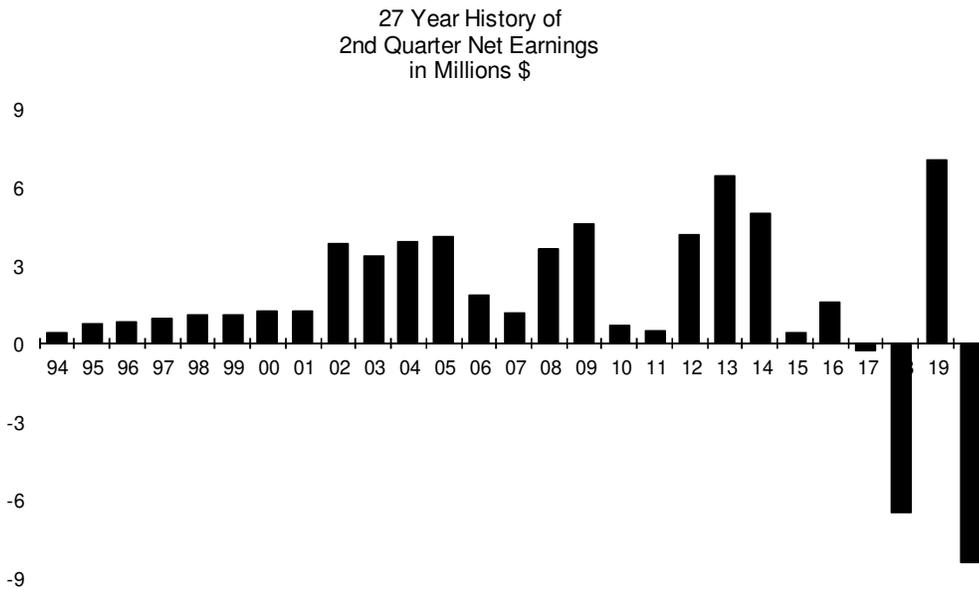
Yury Ryazanov  
Chief Executive Officer  
May 13, 2020

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Willy Janzen, CPA, CGA, B.Comm.  
Chief Financial Officer  
May 13, 2020

# bühler

## Second Quarter Report March 31, 2020



**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       | 2010<br>GAAP | 2011<br>IFRS | 2012<br>IFRS | 2013<br>IFRS | 2014<br>IFRS | 2015<br>IFRS | 2016<br>IFRS | 2017<br>IFRS | 2018<br>IFRS | 2019<br>IFRS    |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| Revenue                   | 209,634      | 279,495      | 357,749      | 340,349      | 325,521      | 245,676      | 274,067      | 311,974      | 287,984      | <b>229,119</b>  |
| Gross profit              | 37,356       | 42,297       | 54,858       | 57,318       | 47,730       | 22,266       | 21,226       | 36,153       | 3,474        | <b>10,343</b>   |
| GP%                       | 17.8%        | 15.1%        | 15.3%        | 16.8%        | 14.7%        | 9.1%         | 7.7%         | 11.6%        | 1.2%         | <b>4.5%</b>     |
| Income from operations    | 18,263       | 21,588       | 31,750       | 34,789       | 22,491       | (4,012)      | (4,668)      | 9,387        | (22,505)     | <b>(13,631)</b> |
| As percentage of revenue  | 9%           | 8%           | 9%           | 10%          | 7%           | (2%)         | (2%)         | 3%           | (8%)         | <b>(6%)</b>     |
| Net earnings              | 8,180        | 11,917       | 16,363       | 19,891       | 12,458       | (5,316)      | (2,677)      | 520          | (49,532)     | <b>(29,489)</b> |
| Earnings per share (EPS)  | 0.33         | 0.48         | 0.65         | 0.80         | 0.50         | (0.21)       | (0.11)       | 0.02         | (1.98)       | <b>(1.18)</b>   |
| EBITDA                    | 14,206       | 22,131       | 27,247       | 34,927       | 24,081       | (6,489)      | 561          | 7,249        | (28,792)     | <b>2,075</b>    |
| Total assets              | 197,203      | 241,355      | 250,569      | 283,403      | 362,844      | 339,029      | 278,415      | 319,739      | 290,378      | <b>262,604</b>  |
| Working capital           | 101,199      | 120,827      | 130,863      | 141,365      | 148,223      | 130,989      | 122,974      | 120,987      | 81,826       | <b>77,592</b>   |
| Shareholders' equity      | 132,645      | 144,562      | 160,925      | 180,816      | 193,274      | 187,958      | 185,281      | 185,801      | 136,269      | <b>106,780</b>  |
| Book value per share      | 5.31         | 5.78         | 6.44         | 7.23         | 7.73         | 7.52         | 7.41         | 7.43         | 5.45         | <b>4.27</b>     |
| Return on average capital | 6%           | 8%           | 10%          | 11%          | 6%           | (3%)         | (1%)         | 0%           | (31%)        | <b>(24%)</b>    |
| Return on average equity  | 6%           | 9%           | 11%          | 12%          | 7%           | (3%)         | (1%)         | 0%           | (31%)        | <b>(24%)</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

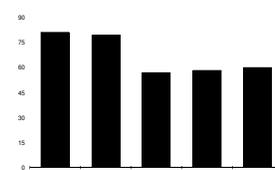
The following discussion and analysis dated May 13, 2020 was prepared by management and should be read in conjunction with the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The following discussion and analysis is presented in millions 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 \$59.8, up \$1.7 from the prior year second quarter. Revenue for the first six months of 2020 was \$109.1, down \$6.3 from 2019. The Company's lower sales levels are as a result of trade uncertainties, bad harvest conditions and poor crop yields coupled with low commodity process. Sales to Canada and Eastern Europe are below historical levels, while the U.S. has seen a return to historical levels of sales.

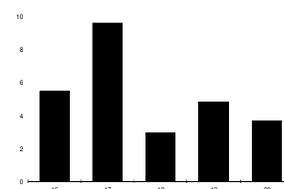
Sales (millions C\$)



### Gross Profit

For the second quarter of 2020, gross profit was \$3.7, compared to \$4.8 in the prior year second quarter. As a percentage of sales gross profit was 6.1%, down from 8.3% in the second quarter of 2019. For the six months ended March 31, 2020, gross profit was \$5.5, down from \$9.8 in the same period last year. While the Company has focused its efforts on margin improvements, competitive pressures have led to a decrease in margin.

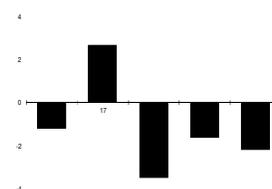
Gross Profit (millions C\$)



### Loss from Operations

Loss from operations came in at \$2.2, compared to the \$1.6 seen in the prior year's second quarter, primarily due to the decrease in gross profit. For the six months ended, loss from operations was \$6.3, compared to \$3.0 in 2019. Selling and administration expenses for the quarter were \$5.8, down \$0.6 from the second quarter of 2019. For the year to date, selling and administrative expenses were \$11.8, down \$1.0 from the prior year's \$12.8. As a percentage of sales, selling and administration for the quarter was 10.8%, compared to the prior year percentage of 11.1%.

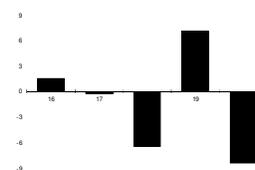
Loss from Operations (millions C\$)



### Net Earnings

The net loss for the second quarter was (\$8.5), compared to net earnings of \$7.0 for the same period in 2019. For the year to date, the net loss was (\$13.9), compared to earnings of \$2.6 in the prior year. The decline in income from operations due to the decreased margin, gain on disposal of assets and increased loss on foreign exchange was offset by decreased interest expense and research and development costs.

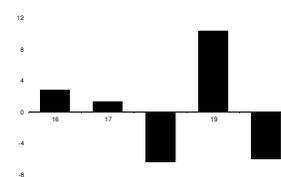
Net Earnings (millions C\$)



### 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 the second quarter of 2020 was (\$6.0), compared with the prior year second quarter of \$10.4. For the six months ended March 31, 2020, EBITDA was (\$9.7), compared to the prior year's \$9.7. The decrease was due primarily to the decrease in income from operations and gains on disposal of assets offset by decreased research and development spending.

EBITDA (millions C\$)

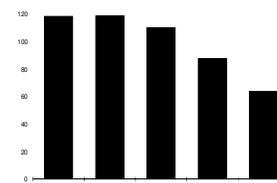


# Management Discussion & Financial Analysis

## 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 \$63.8, down from same period in the prior year of \$87.6. Accounting for the change were increases in accounts receivable of \$6.0 and prepaid expenses of \$0.9 as well as decreases in bank indebtedness of \$7.7, offset by decreases in inventories of \$13.9 and income taxes recoverable of \$1.2 as well as increases in accounts payable and accrued liabilities of \$17.7 and advances from related party of \$5.7.

## Working Capital (millions C\$)



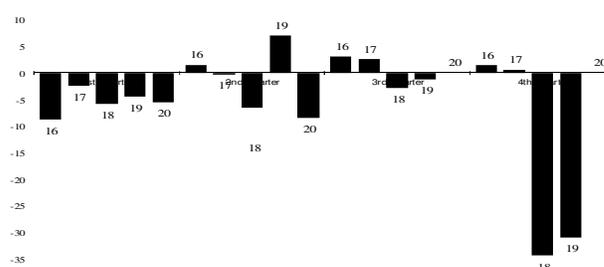
## Research and Development

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 second quarter of 2020 the Company spent \$1.8, compared to \$2.1 for the prior year. Current year to date spending was \$3.4, compared to the prior year \$4.2. Management believes this strategy will maintain the Company's competitive position in the marketplace.

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

|       | 2016       | 2017       | 2018        | 2019        | 2020        |
|-------|------------|------------|-------------|-------------|-------------|
| 1st Q | \$ (8,694) | \$ (2,440) | \$ (5,798)  | \$ (4,444)  | \$ (5,453)  |
| 2nd Q | 1,534      | (251)      | (6,554)     | 7,041       | (8,460)     |
| 3rd Q | 3,062      | 2,581      | (2,876)     | (1,170)     |             |
| 4th Q | 1,421      | 630        | (34,304)    | (30,916)    |             |
| Total | \$ (2,677) | \$ 520     | \$ (49,532) | \$ (29,489) | \$ (13,913) |

## Net Quarterly Income (millions C\$)



## Summary of Quarterly Results

Sales for the second quarter were up from the second quarter of 2019, with increases in sales in North America being offset by decreases overseas. Sales for the quarter of \$59.8 generated a gross profit of \$3.7 and net income of (\$8.5). While the Company has made improvements in manufacturing efficiencies, competitive pressures have led to reduced gross margins. Reductions in research and development spending and decreased interest expenses were offset by increased loss on foreign exchange and decreased gain on the sale of surplus assets.

## Cash Flow and Capital Resources

### Operating Activities

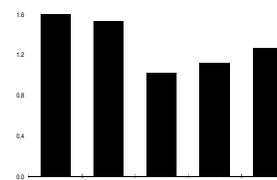
Cash for the quarter was up \$5.9 from December 31, 2019, coming in at an indebtedness of \$31.7. The net loss of \$8.5 and increase in accounts receivable of \$6.0 was offset by an increase in accounts payable and accrued liabilities of \$14.9 and advances from related party of \$6.3.

## 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. The increase in sales has led to an increase in the inventory turns, going from 1.11 in the second quarter of 2019 to the current 1.27, an increase of 18.0%. Management expects this ratio to slowly improve for the remainder of the year.



# Management Discussion & Financial Analysis

## Investing Activities

Cash utilized for investing activities for the quarter was \$0.6, a decrease of \$13.5 from cash provided of \$12.9 in the second quarter of 2019. Spending on capital assets in the second quarter of 2020 was \$0.6, compared to \$0.3 in the prior year's second quarter. Proceeds on the sale of capital assets was minimal in the quarter, whereas in the second quarter of 2019 these proceeds were \$13.2.

Asset Purchases (millions C\$)



## Financing Activities

The Company had an inflow of cash during the quarter of \$6.3, consisting of receipt of advances from related party of \$4.0 and losses on foreign exchange of \$2.3. This compares to the second quarter of 2019 where the Company saw an outflow of \$0.3 for recovery of tax credits of \$0.1 and losses on foreign exchange of \$0.4.

## 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. 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

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## *Looking Forward*

The recent arrival of COVID-19 will have an unfavorable impact on the Company as farmers, dealers and governments decide their next steps in dealing with this pandemic. The Company is currently operating all facilities and is considered an essential service as we are engaged in the manufacture of equipment and parts necessary to support agricultural production and distribution. The pandemic follows what already was a difficult year for farmers in the United States and Canada with lower commodity prices and difficult harvest conditions encountered last fall. As a result, management is unable to provide guidance on the impact to the Company. The Company continues to manufacture and distribute product to support its customer base. It is also working hard in developing new products and continues to foster relationships with customers. The Company will continue to strive to support the farm community with products and parts.

## *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*

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 March 31, 2020 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 March 31, 2020 to provide reasonable assurance that the financial information being reported is materially accurate. During the period ended March 31, 2020, 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>March 31,<br/>2020</b> | <b>September 30,<br/>2019</b> | <b>March 31,<br/>2019</b> |
|--|---------------------------|-------------------------------|---------------------------|
| <b>Assets</b>  |                           |                               |                           |
| <b>Current Assets</b>                                    |                           |                               |                           |
| Accounts receivable (note 9)                             | \$ 60,803                 | \$ 59,373                     | \$ 54,839                 |
| Income taxes receivable                                  | 1,541                     | 4,414                         | 2,755                     |
| Inventories (note 7)                                     | 177,550                   | 165,631                       | 191,502                   |
| Prepaid expenses   | 3,369                     | 3,544                         | 2,460                     |
| <b>Total Current Assets</b>                              | <b>243,263</b>            | <b>232,962</b>                | <b>251,556</b>            |
| Property, plant and equipment (note 8)                   | 17,498                    | 18,040                        | 19,295                    |
| Deferred income tax assets (note 10)                     | 5,972                     | 5,557                         | 26,598                    |
| Interests in joint ventures and other entities (note 11) | 6,113                     | 6,045                         | 5,815                     |
| <b>Total Assets</b>                                      | <b>\$ 272,846</b>         | <b>\$ 262,604</b>             | <b>\$ 303,264</b>         |
| <b>Liabilities and Shareholders' Equity</b>              |                           |                               |                           |
| <b>Current Liabilities</b>                               |                           |                               |                           |
| Bank indebtedness (note 6)                               | \$ 31,660                 | \$ 37,722                     | \$ 39,414                 |
| Accounts payable and accrued liabilities (note 9)        | 119,831                   | 95,422                        | 102,074                   |
| Income taxes payable                                     | 343                       | 368                           | 419                       |
| Advances from related party (note 9)                     | 27,669                    | 21,858                        | 22,043                    |
| <b>Total Current Liabilities</b>                         | <b>179,503</b>            | <b>155,370</b>                | <b>163,950</b>            |
| Deferred income tax liabilities (note 10)                | 36                        | 43                            | 34                        |
| Long term debt (note 13)                                 | 440                       | 411                           | 414                       |
| <b>Total Liabilities</b>                                 | <b>179,979</b>            | <b>155,824</b>                | <b>164,398</b>            |
| <b>Shareholders' Equity</b>                              |                           |                               |                           |
| Share capital (note 14)                                  | 30,000                    | 30,000                        | 30,000                    |
| Retained earnings  | 62,867                    | 76,780                        | 108,866                   |
| <b>Total Shareholders' Equity</b>                        | <b>92,867</b>             | <b>106,780</b>                | <b>138,866</b>            |
| <b>Total Liabilities and Equity</b>                      | <b>\$ 272,846</b>         | <b>\$ 262,604</b>             | <b>\$ 303,264</b>         |

Subsequent event (note 23)

*Approved on behalf of the Board:*

**Director:**

Yury Ryazov  
Chief Executive Officer  
May 13, 2020

**Director:**

Dmitry Udras  
Chairman of the Board  
May 13, 2020

## Consolidated Statement of Comprehensive (Loss) Income

| <i>Unaudited six months ended March 31 (000's C\$)</i>              | <b>Q2 2020</b>                   | Q2 2019                      | <b>YTD 2020</b>                   | YTD 2019                    |
|---|----------------------------------|------------------------------|-----------------------------------|-----------------------------|
| <b>Revenue</b> (note 9)   | <b>\$ 59,817</b>                 | \$ 58,108                    | <b>\$ 109,059</b>                 | \$ 115,438                  |
| Cost of goods sold (note 9)   | <u><b>56,164</b></u>             | <u>53,292</u>                | <u><b>103,564</b></u>             | <u>105,658</u>              |
| <b>Gross Profit</b>   | <b>3,653</b> 6.1%                | 4,816 8.3%                   | <b>5,495</b> 5.0%                 | 9,780 8.5%                  |
| Selling & administration expenses                                   | <u><b>5,845</b></u> 9.8%         | <u>6,444</u> 11.1%           | <u><b>11,751</b></u> 10.8%        | <u>12,791</u> 11.1%         |
| <b>Loss from Operations</b>   | <b>(2,192)</b> (3.7%)            | (1,628) (2.8%)               | <b>(6,256)</b> (5.7%)             | (3,011) (2.6%)              |
| Gain on disposal of assets  | <b>(9)</b>                       | (13,353)                     | <b>(475)</b>                      | (15,442)                    |
| Interest income   | <b>(244)</b>                     | (97)                         | <b>(379)</b>                      | (318)                       |
| Interest expense  | <b>1,799</b>                     | 2,441                        | <b>3,593</b>                      | 4,825                       |
| Loss on foreign exchange  | <b>3,061</b>                     | 148                          | <b>2,262</b>                      | 536                         |
| Share of income from interests in joint ventures and other entities | <b>(97)</b>                      | (28)                         | <b>(82)</b>                       | (100)                       |
| Research and development costs                                      | <u><b>1,776</b></u>              | <u>2,143</u>                 | <u><b>3,405</b></u>               | <u>4,216</u>                |
| <b>Net (Loss) Income Before Taxes</b>                               | <b>(8,478)</b> (14.2%)           | 7,118 12.2%                  | <b>(14,580)</b> (13.4%)           | 3,272 2.8%                  |
| Current income taxes (recovered) (note 10)                          | <b>3</b>                         | (155)                        | <b>359</b>                        | 1,151                       |
| Deferred income taxes (recovered) (note 10)                         | <u><b>(21)</b></u>               | <u>232</u>                   | <u><b>(1,026)</b></u>             | <u>(476)</u>                |
| Total income taxes (recovered)                                      | <u><b>(18)</b></u>               | <u>77</u>                    | <u><b>(667)</b></u>               | <u>675</u>                  |
| <b>Net (Loss) Income and Comprehensive (Loss) Income</b>            | <b><u>\$ (8,460)</u></b> (14.1%) | <b><u>\$ 7,041</u></b> 12.1% | <b><u>\$ (13,913)</u></b> (12.8%) | <b><u>\$ 2,597</u></b> 2.2% |

## Consolidated Statement of Change in Shareholders' Equity

| <i>For the six months ended March 31 (000's C\$ except per share amounts)</i> | <b>Q2 2020</b>          | Q2 2019          | <b>YTD 2020</b>         | YTD 2019          |
|---|-------------------------|------------------|-------------------------|-------------------|
| <b>Capital Stock, beginning and end of period</b>                             | <u><b>\$ 30,000</b></u> | <u>\$ 30,000</u> | <u><b>\$ 30,000</b></u> | <u>\$ 30,000</u>  |
| <b>Retained Earnings, beginning of period</b>                                 | <b>71,327</b>           | 101,825          | <b>76,780</b>           | 106,269           |
| Net (loss) income and comprehensive (loss) income                             | <u><b>(8,460)</b></u>   | <u>7,041</u>     | <u><b>(13,913)</b></u>  | <u>2,597</u>      |
| <b>Retained Earnings, end of period</b>                                       | <u><b>62,867</b></u>    | <u>108,866</u>   | <u><b>62,867</b></u>    | <u>108,866</u>    |
| <b>Shareholders' Equity, end of period</b>                                    | <u><b>\$ 92,867</b></u> | <u>\$138,866</u> | <u><b>\$ 92,867</b></u> | <u>\$ 138,866</u> |
| <b>(Loss) gain per share</b>  |                         |                  |                         |                   |
| Basic and fully diluted   | <b>\$ (0.34)</b>        | \$ 0.28          | <b>\$ (0.56)</b>        | \$ 0.10           |

# Consolidated Statement of Cash Flows

| <i>Unaudited six months ended March 31 (000's C\$)</i>              | <b>Q2 2020</b>     | Q2 2019            | <b>YTD 2020</b>    | YTD 2019           |
|---|--------------------|--------------------|--------------------|--------------------|
| <b>Cash provided by (used in) operating activities</b>              |                    |                    |                    |                    |
| Net (loss) income and comprehensive (loss) income                   | \$ (8,460)         | \$ 7,041           | \$ (13,913)        | \$ 2,597           |
| Add (deduct) non-cash items   |                    |                    |                    |                    |
| Depreciation of plant and equipment                                 | 674                | 825                | 1,255              | 1,649              |
| Gain on disposal of assets  | (9)                | (13,353)           | (475)              | (15,442)           |
| Loss on foreign exchange  | 3,061              | 148                | 2,262              | 536                |
| Deferred income taxes (recovered)                                   | (21)               | 232                | (1,026)            | (476)              |
| Share of income from interests in joint ventures and other entities | (97)               | (28)               | (82)               | (100)              |
|   | <u>(4,852)</u>     | <u>(5,135)</u>     | <u>(11,979)</u>    | <u>(11,236)</u>    |
| <b>Net change in non-cash working capital balances</b> (note 18)    | <u>3,133</u>       | <u>(16,336)</u>    | <u>11,014</u>      | <u>(16,529)</u>    |
|   | <u>(1,719)</u>     | <u>(21,471)</u>    | <u>(965)</u>       | <u>(27,765)</u>    |
| <b>Investing activities</b>   |                    |                    |                    |                    |
| Purchase of property, plant and equipment                           | (648)              | (327)              | (726)              | (372)              |
| Proceeds on sale of property, plant and equipment                   | 22                 | 13,201             | 488                | 15,283             |
|   | <u>(626)</u>       | <u>12,874</u>      | <u>(238)</u>       | <u>14,911</u>      |
| <b>Financing activities</b>   |                    |                    |                    |                    |
| Decrease in advances to related party                               | -                  | -                  | -                  | 2,214              |
| Tax credits recovered   | -                  | 114                | -                  | 114                |
| Increase in advances from related party                             | 3,991              | 96                 | 3,991              | 6,827              |
| Foreign exchange loss (gain) on the above items                     | 2,278              | (460)              | 1,849              | 412                |
|   | <u>6,269</u>       | <u>(250)</u>       | <u>5,840</u>       | <u>9,567</u>       |
| <b>Foreign exchange (gain) loss on bank indebtedness</b>            | <u>2,007</u>       | <u>(488)</u>       | <u>1,425</u>       | <u>1,127</u>       |
| <b>Net cash provided (used) in the period</b>                       | <b>5,931</b>       | <b>(9,335)</b>     | <b>6,062</b>       | <b>(2,160)</b>     |
| <b>Bank indebtedness, beginning of period</b>                       | <u>(37,591)</u>    | <u>(30,079)</u>    | <u>(37,722)</u>    | <u>(37,254)</u>    |
| <b>Bank indebtedness, end of period</b>                             | <b>\$ (31,660)</b> | <b>\$ (39,414)</b> | <b>\$ (31,660)</b> | <b>\$ (39,414)</b> |

# 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 May 13, 2020.

## 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) 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.

## 3. Significant Accounting Policies - continued

### (e) Revenue recognition

Revenue is recognized when control of the equipment or parts has been transferred and the Company's performance obligations to the customers have been satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring the goods.

The timing of when the Company transfers the goods to the customer may differ from the timing of the customer's payment.

Revenues are stated net of discounts, allowances, settlement discounts and rebates, as well as costs for sales incentive programs, which are determined on the basis of historical costs and charged against profit for the period in which the corresponding sales are recognized.

The Company has determined that the customers from the sale of equipment and parts are generally dealers.

Transfer of control, and thus related revenue recognition, generally corresponds to when the equipment and parts are made available to the customer. Therefore, the Company recognizes revenue at a point in time, when control is transferred to the customer at a sale price that the Company expects to receive.

For all sales, no significant uncertainty exists surrounding the purchaser's obligation to pay for equipment and parts. The Company records appropriate allowance for credit losses and anticipated

The cost of incentives, if any, are estimated at the inception of a contract at the amount that is expected to be paid and is recognized as a reduction to revenue at the time of the sale. If the estimate of the incentive changes following the sale to the customer, the change in estimate is recognized as an adjustment to revenue in the period of the change. The Company grants certain sales incentives to support sales of its products to retail customers. At the later of the time of sale or the time an incentive is announced to dealers, the Company records the estimated impact of sales allowances in the form of dealer and customer incentives as a reduction of revenue. Subsequent adjustments to sales incentive programs related to products previously sold are recognized as an adjustment to revenues in the period the adjustment is determinable. The determination of sales allowances requires management to make estimates based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

### (f) Sales allowances

The Company grants certain sales incentives to support sales of its products to retail customers. At the later of the time of sale or the time an incentive is announced to dealers, the Company records the estimated impact of sales allowances in the form of dealer and customer incentives as a reduction of revenue. The expense for new programs is accrued at the inception of the program. The amounts of incentives to be paid are estimated. The determination of sales allowances requires management to make estimates based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

### (g) 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.

### (h) Research and development expenses

The Company expenses all research and development 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.

# Notes to Consolidated Financial Statements

## 3. Significant Accounting Policies - continued

### (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.

### (k) 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.

### (l) Financial Instruments

In accordance with IFRS 9 - *Financial Instruments*, financial assets are classified as measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model for managing such financial assets and the asset's contractual cash flow characteristics. Financial liabilities are classified as measured at amortized cost using the effective interest method.

The Company's financial instruments are classified as follows: a) cash and cash equivalents (bank indebtedness) - fair value through profit and loss, b) accounts receivable - amortized cost, c) advances to related parties - amortized cost, d) accounts payable and accrued liabilities - amortized cost, e) interests in other entities - fair value through profit and loss, f) advances from related parties - amortized cost and g) long term debt - amortized cost. 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.

### (m) 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 may enter into foreign currency forward contracts to manage foreign exchange exposures on accounts receivable expected to be recovered in US 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.

## 3. Significant Accounting Policies - continued

### (n) 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.

### (o) Product warranties

The Company makes provisions for estimated expenses related to product warranties at the time products are sold. Management establishes these estimates based on historical information on the nature, frequency and average cost of warranty claims. The Company seeks to improve product quality and minimize warranty expenses arising from claims. Warranty costs may differ from those estimated if actual claim rates are higher or lower than historical rates.

### (p) 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 Incentives

The Company provides certain sales incentives 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. These have been accrued for in accounts payable and accrued liabilities.

### (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

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 2020 nor 2019.

# Notes to Consolidated Financial Statements

## 5. Accounting Standards Implemented in 2020 (000's C\$)

The following accounting standards came into effect commencing in the 2020 fiscal year:

### (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. The adoption of IFRS 16 did not result in any transition adjustments being recognized as at October 1, 2019.

### (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. The adoption of IFRSIC 23 did not result in any transition adjustments being recognized as at October 1, 2019.

## 6. 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 March 31, 2020, the amount drawn on this facility is \$35,328, (September 30, 2019 - \$39,769). Cash balances of \$3,668 has been netted with the facility (September 30, 2019 - \$2,047).

|                 | March 31<br>2020  | Sept. 30<br>2019  |
|-----------------|-------------------|-------------------|
| Raw materials   | \$ 55,176         | \$ 55,200         |
| Work in process | 5,619             | 3,866             |
| Finished goods  | 116,755           | 106,565           |
|                 | <u>\$ 177,550</u> | <u>\$ 165,631</u> |

During the period, inventories in the amount of \$40,003 (2019 - \$37,763) were expensed to cost of sales, which included inventory recoveries of \$500 (2019 - \$404). For the six months ended March 31, 2020, \$72,312 (2019 - \$73,984) were expensed, including inventory write downs of \$679 (2019 - recoveries of \$3,275).

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

Included in inventories are units sold on consignment being held at dealers locations in the amount of \$8,874 (September 30, 2019 - \$10,570).

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

|   | Land            | Buildings       | Equipment       | Computer equipment | Total            |
|---|-----------------|-----------------|-----------------|--------------------|------------------|
| Cost  | \$ 3,673        | \$ 28,556       | \$ 60,869       | \$ 8,437           | \$ 101,535       |
| Accumulated depreciation<br>Sept. 30, 2018 net book value | -               | (18,510)        | (54,891)        | (7,401)            | (80,802)         |
|   | <u>3,673</u>    | <u>10,046</u>   | <u>5,978</u>    | <u>1,036</u>       | <u>20,733</u>    |
| Additions   | -               | (37)            | 965             | 15                 | 943              |
| Disposals   | (116)           | -               | (63)            | -                  | (179)            |
| Depreciation  | -               | (913)           | (2,235)         | (309)              | (3,457)          |
| Sept. 30, 2019 net book value                             | <u>3,557</u>    | <u>9,096</u>    | <u>4,645</u>    | <u>742</u>         | <u>18,040</u>    |
| Additions   | -               | (105)           | 810             | 21                 | 726              |
| Disposals   | -               | -               | (13)            | -                  | (13)             |
| Depreciation  | -               | (453)           | (692)           | (110)              | (1,255)          |
| March 31, 2020 net book value                             | <u>\$ 3,557</u> | <u>\$ 8,538</u> | <u>\$ 4,750</u> | <u>\$ 653</u>      | <u>\$ 17,498</u> |

Recorded as:

|   | Land            | Buildings       | Equipment       | Computer equipment | Total            |
|---|-----------------|-----------------|-----------------|--------------------|------------------|
| Cost  | \$ 3,557        | \$ 28,519       | \$ 61,652       | \$ 8,452           | \$ 102,180       |
| Accumulated depreciation<br>Sept. 30, 2019 net book value | -               | (19,423)        | (57,007)        | (7,710)            | (84,140)         |
|   | <u>\$ 3,557</u> | <u>\$ 9,096</u> | <u>\$ 4,645</u> | <u>\$ 742</u>      | <u>\$ 18,040</u> |
| Cost  | \$ 3,557        | \$ 28,367       | \$ 62,021       | \$ 7,668           | \$ 101,613       |
| Accumulated depreciation<br>March 31, 2020 net book value | -               | (19,829)        | (57,271)        | (7,015)            | (84,115)         |
|   | <u>\$ 3,557</u> | <u>\$ 8,538</u> | <u>\$ 4,750</u> | <u>\$ 653</u>      | <u>\$ 17,498</u> |

## 8. Property, Plant and Equipment (000's C\$) - continued

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 \$975 of equipment not being depreciated as the assets are not yet in use (September 30, 2019 - \$748).

|  | March 31<br>2020 | Sept. 30<br>2019 |
|--|------------------|------------------|
| Accounts receivable from controlling shareholder | \$ 1,645         | \$ 6,342         |
| Accounts payable to controlling shareholder      | 2,213            | 2,313            |
| Advances from related party                      | 27,669           | 21,858           |

|  | Q2 2020  | Q2 2019  | YTD 2020 | YTD 2019  |
|--|----------|----------|----------|-----------|
| Net sales to controlling shareholder       | \$ 1,523 | \$ 7,130 | \$ 4,315 | \$ 11,372 |
| Net purchases from controlling shareholder | -        | 30       | 45       | 312       |

All transactions with related parties are recorded at the exchange amount agreed to by the related parties. In the current year, the Company sold tooling related to a sprayer under development that the Company has decided not to produce for \$352 USD with a cost base of \$40 USD. During the prior year, the Company sold certain intellectual properties to the controlling shareholder. These relate to an older tractor model that no longer has a market in North America for \$10,000 USD and a sprayer under development that the Company has decided not to produce for \$3,000 USD. There was no cost basis for these intellectual properties, which resulted in a gain on sale of \$17,471. The amounts agreed upon are based on external valuations.

The advances from the controlling shareholder of \$16,505 USD (September 30, 2019 - \$16,505 USD) bears interest at 5.0% 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):

|   | Q2 2020 | Q2 2019 | YTD 2020 | YTD 2019 |
|---|---------|---------|----------|----------|
| Salaries, fees and short term employee benefits | \$ 466  | \$ 333  | \$ 1,012 | \$ 1,126 |

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

|  | Q2 2020        | Q2 2019         | YTD 2020          | YTD 2019        |
|--|----------------|-----------------|-------------------|-----------------|
| Current year   | \$ 1           | \$ (155)        | \$ 63             | \$ 1,154        |
| Adjustment for prior years                               | 2              | -               | 296               | (3)             |
| Current income tax provision                             | <u>\$ 3</u>    | <u>\$ (155)</u> | <u>\$ 359</u>     | <u>\$ 1,151</u> |
| Origination and reversal of timing differences           | \$ (21)        | \$ 671          | \$ (460)          | \$ 106          |
| SR&ED credits earned                                     | -              | (439)           | (566)             | (582)           |
| Deferred tax recovery                                    | <u>\$ (21)</u> | <u>\$ 232</u>   | <u>\$ (1,026)</u> | <u>\$ (476)</u> |
| Combined Canadian federal and provincial income tax rate | 27.0%          | 27.0%           | 27.0%             | 27.0%           |
| Effect of unrecorded tax assets                          | (27.2)         | 5.2             | (27.5)            | 68.2            |
| SR&ED credits earned                                     | -              | -               | 3.9               | 0.1             |
| Prior year tax adjustments                               | -              | (6.1)           | (2.0)             | (17.8)          |
| Non-taxable portion of capital gains                     | -              | (25.2)          | 0.4               | (55.7)          |
| Permanent differences and other                          | 0.4            | 0.2             | 2.8               | (1.2)           |
| Effective income tax rate                                | <u>0.2%</u>    | <u>1.1%</u>     | <u>4.6%</u>       | <u>20.6%</u>    |

Income taxes recovered during the period were \$600 (Q2 2019 - taxes paid of \$118). For the six months ended March 31, 2020, the taxes recovered were \$3,076 (2019 - taxes paid of \$1,156).

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.

# Notes to Consolidated Financial Statements

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

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

|  | March 31<br>2020 | Sept. 30<br>2019 |
|--|------------------|------------------|
| Deferred income tax assets                 |                  |                  |
| Property, plant, equipment and intangibles | \$ 1,279         | \$ 864           |
| SRED credits                               | 4,693            | 4,693            |
|  | <u>\$ 5,972</u>  | <u>\$ 5,557</u>  |
| Deferred income tax liabilities            |                  |                  |
| Property, plant, equipment and intangibles | \$ 36            | \$ 43            |

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.

Deferred tax assets of \$30,286 in Canada (September 30, 2019 - \$28,107) in excess of the deferred tax losses are available to be carried forward to future periods. Of this amount only \$5,972 has been recorded (September 30, 2019 - \$5,557). Management believes that these assets will be realized in future periods. As a result of losses over the past few years, management has decided to not recognize these assets as at March 31, 2020. The remaining \$24,314 will be recognized in future periods when profitability returns in Canada. These losses begin to expire in 2037.

Deferred tax assets of \$19,252 in the U.S. (September 30, 2019 - \$17,044) in excess of the deferred tax losses are available to be carried forward to future periods. Management believes that these assets will be realized in future periods. As a result of losses over the past few years, management has decided to not recognize these assets as at March 31, 2020. These assets will be recognized in future periods when profitability returns in the U.S. These losses begin to expire in 2034.

## 11. 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                                 | March 31<br>2020 | Sept. 30<br>2019 |                 |                 |
|---|------------------|------------------|-----------------|-----------------|
| <b>Assets</b>   |                  |                  |                 |                 |
| Current   | \$ 6,471         | \$ 6,331         |                 |                 |
| Non-current   | 166              | 166              |                 |                 |
| Total Assets  | <u>\$ 6,637</u>  | <u>\$ 6,497</u>  |                 |                 |
| <b>Liabilities</b>  |                  |                  |                 |                 |
| Current   | \$ 524           | \$ 452           |                 |                 |
| Non-current   | -                | -                |                 |                 |
| Total Liabilities   | <u>524</u>       | <u>452</u>       |                 |                 |
| <b>Equity</b>   | <u>6,113</u>     | <u>6,045</u>     |                 |                 |
| <b>Total Liabilities and Equity</b>                       | <u>\$ 6,637</u>  | <u>\$ 6,497</u>  |                 |                 |
| <b>Income statement information</b>                       | <b>Q2 2020</b>   | <b>Q2 2019</b>   | <b>YTD 2020</b> | <b>YTD 2019</b> |
| Revenues  | \$ 1,453         | \$ 1,453         | \$ 1,884        | \$ 2,588        |
| Profit from continuing operations                         | \$ 10            | \$ 10            | \$ 83           | \$ 107          |
| Net income and comprehensive income                       | \$ 28            | \$ 28            | \$ 60           | \$ 100          |
| <b>Other information</b>                                  |                  |                  |                 |                 |
| Dividends received from joint ventures and other entities | \$ 12            | \$ 18            | \$ 15           | \$ 21           |
| Depreciation  | \$ 1             | \$ 3             | \$ 2            | \$ 5            |
| Income tax expense  | \$ 31            | \$ 4             | \$ 24           | \$ 29           |

## 12. Warranty provision (000's C\$)

The Company generally provides its customers with a warranty on the goods sold. The movement in the provision for warrant costs during the year is as follows:

|                                   | March<br>2020   | Sept. 30<br>2019 |
|-----------------------------------|-----------------|------------------|
| Opening balance                   | \$ 5,810        | \$ 6,748         |
| Warranty accrual (recovery) (net) | -               | (958)            |
| Effect of exchange rate           | 94              | 20               |
| Closing balance                   | <u>\$ 5,904</u> | <u>\$ 5,810</u>  |

The Company's warranty costs for the period, net of recoveries from suppliers, was \$1,737 (Q2 2019 - \$1,453). For the six months ended March 31, 2020 these costs, net of recoveries from suppliers, was \$3,381 (2019 - \$3,110)

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

The Company's long term debt consists of an amount of \$440 (September 30, 2019 - \$411) 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.

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

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

|                       | March 31, 2020<br>Shares | Sept. 30, 2019<br>Shares |
|-----------------------|--------------------------|--------------------------|
| Issued Class A common | 25,000 \$ 30,000         | 25,000 \$ 30,000         |

There are no options outstanding as of March 31, 2020 nor September 30, 2019.

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

|                     | Q2 2020         | Q2 2019         | YTD 2020        | YTD 2019        |
|---------------------|-----------------|-----------------|-----------------|-----------------|
| Bank indebtedness   | \$ 447          | \$ 504          | \$ 917          | \$ 1,038        |
| Wholesale financing | 1,009           | 1,703           | 2,065           | 3,355           |
| Long term debt      | 295             | 260             | 567             | 422             |
|                     | <u>\$ 1,751</u> | <u>\$ 2,467</u> | <u>\$ 3,549</u> | <u>\$ 4,815</u> |

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

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

|                                    | Q2 2020          | Q2 2019          | YTD 2020          | YTD 2019          |
|------------------------------------|------------------|------------------|-------------------|-------------------|
| Raw materials and consumables used | \$ 46,320        | \$ 43,372        | \$ 83,267         | \$ 85,044         |
| Depreciation and amortization      | 674              | 825              | 1,255             | 1,649             |
| Personnel expenses                 | 15,581           | 15,956           | 31,668            | 32,276            |
| Freight                            | 1,210            | 1,726            | 2,530             | 3,696             |
|                                    | <u>\$ 63,785</u> | <u>\$ 61,879</u> | <u>\$ 118,720</u> | <u>\$ 122,665</u> |

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

|                                     | Q2 2020                         |           |           |           |
|-------------------------------------|---------------------------------|-----------|-----------|-----------|
|                                     | Canada                          | U.S.      | CIS       | Other     |
| Revenue                             | \$ 22,971                       | \$ 29,473 | \$ 810    | \$ 6,563  |
| Net income and comprehensive income | (3,155)                         | (4,159)   | (140)     | (1,006)   |
| Property, plant, and equipment      | 11,686                          | 5,645     | 167       | -         |
|                                     |                                 |           |           |           |
|                                     | Q2 2019                         |           |           |           |
|                                     | Canada                          | U.S.      | CIS       | Other     |
| Revenue                             | \$ 25,558                       | \$ 19,465 | \$ 5,314  | \$ 7,771  |
| Net income and comprehensive income | 8,289                           | (706)     | (267)     | (275)     |
| Property, plant and equipment       | 13,130                          | 5,998     | 167       | -         |
|                                     |                                 |           |           |           |
|                                     | Six months ended March 31, 2020 |           |           |           |
|                                     | Canada                          | U.S.      | CIS       | Other     |
| Revenue                             | \$ 36,322                       | \$ 53,116 | \$ 2,992  | \$ 16,629 |
| Net income and comprehensive income | (4,633)                         | (6,777)   | (382)     | (2,121)   |
|                                     |                                 |           |           |           |
|                                     | Six months ended March 31, 2019 |           |           |           |
|                                     | Canada                          | U.S.      | CIS       | Other     |
| Revenue                             | \$ 52,274                       | \$ 35,720 | \$ 13,516 | \$ 13,928 |
| Net income and comprehensive income | 6,219                           | (1,967)   | (903)     | (752)     |

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

# Notes to Consolidated Financial Statements

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

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.

|                                     | Q2 2020   |        | Q2 2019   |        |
|-------------------------------------|-----------|--------|-----------|--------|
|                                     | Ag        | Non-Ag | Ag        | Non-Ag |
| Revenue                             | \$ 59,682 | \$ 135 | \$ 57,983 | \$ 125 |
| Interest income                     | 244       | -      | 97        | -      |
| Interest expense                    | 1,799     | -      | 2,441     | -      |
| Net income and comprehensive income | (8,978)   | 518    | 7,205     | (164)  |
| Assets                              | 264,358   | 8,488  | 294,776   | 8,488  |

|                                     | YTD 2020   |        | YTD 2019   |        |
|-------------------------------------|------------|--------|------------|--------|
|                                     | Ag         | Non-Ag | Ag         | Non-Ag |
| Revenue                             | \$ 108,784 | \$ 275 | \$ 115,191 | \$ 247 |
| Interest income                     | 379        | -      | 318        | -      |
| Interest expense                    | 3,593      | -      | 4,825      | -      |
| Net income and comprehensive income | (14,172)   | 259    | 1,004      | 1,593  |

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 in the second quarter of 2020 were \$5.4 million and \$4.1 million, both in the agricultural segments. For the same period of fiscal 2019, the top two customers were \$7.1 million and \$6.0 million, also both in the agricultural segments.

For the six months ended March 31, 2020, revenue from the top two customers were \$9.9 million and \$9.2 million, both in the agricultural segments. For the same period of fiscal 2019, the top two customers were \$16.3 million and \$11.4 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:

|  | Q2 2020    | Q2 2019     | YTD 2020   | YTD 2019    |
|--|------------|-------------|------------|-------------|
| Accounts receivable                      | \$ (6,035) | \$ 352      | \$ (1,430) | \$ 3,433    |
| Inventories                              | (1,359)    | (8,049)     | (11,919)   | (19,890)    |
| Prepaid expenses                         | 76         | 62          | 175        | 350         |
| Accounts payable and accrued liabilities | 14,918     | (8,703)     | 24,409     | 1,025       |
| Income taxes receivable/payable          | 589        | (542)       | 2,848      | (126)       |
| Foreign exchange loss on the above items | (5,056)    | 544         | (3,069)    | (1,321)     |
|  | \$ 3,133   | \$ (16,336) | \$ 11,014  | \$ (16,529) |

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

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

|                           | Advances to related party | Long term debt | Advances from related party | Total       |
|---------------------------|---------------------------|----------------|-----------------------------|-------------|
| <b>September 30, 2018</b> | \$ 2,173                  | \$ (401)       | \$ (14,775)                 | \$ (13,003) |
| Cash flows                | (2,214)                   | -              | (6,842)                     | (9,056)     |
| Foreign exchange          | 41                        | (10)           | (241)                       | (210)       |
| <b>September 30, 2019</b> | -                         | (411)          | (21,858)                    | (22,269)    |
| Cash flows                | -                         | -              | (3,991)                     | (3,991)     |
| Foreign exchange          | -                         | (29)           | (1,820)                     | (1,849)     |
| <b>March 31, 2020</b>     | \$ -                      | \$ (440)       | \$ (27,669)                 | \$ (28,109) |

## 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.

## 20. Capital Management - continued

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 | March 31, 2020                                |                    |
|--|----------------|---|--------------------|
|  |                | Carried at cost/<br>Amortized cost            | Fair Value         |
| Bank indebtedness                        | Amortized cost | \$ (31,660)                                   |                    |
| Accounts receivable                      | Amortized cost | 60,803  |                    |
| Interest in other entities               | FVTPL          |   | 158                |
| Accounts payable and accrued liabilities | Amortized cost | (119,831)                                     |                    |
| Advances from related parties            | Amortized cost | (27,669)                                      |                    |
| Long term debt                           | Amortized cost | (440)   |                    |
|  |                |   | September 30, 2019 |
| Financial Asset/Liability                | Classification | Carried at cost/<br>Amortized cost Fair Value |                    |
|  |                | Amortized cost                                | Fair Value         |
| Bank indebtedness                        | Amortized cost | \$ (37,722)                                   |                    |
| Accounts receivable                      | Amortized cost | 59,373  |                    |
| Interest in other entities               | FVTPL          |   | 157                |
| Accounts payable and accrued liabilities | Amortized cost | (95,422)                                      |                    |
| Advances from related parties            | Amortized cost | (21,858)                                      |                    |
| Long term debt                           | Amortized cost | (411)   |                    |

Financial instruments includes bank indebtedness, accounts receivable, advances to related parties, financial instruments, long term receivables, interests in other entities not subject to significant influence, accounts payable and accrued liabilities, advances from related parties 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.

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 interest in other entities 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.

# Notes to Consolidated Financial Statements

## 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, wholesale financing and long term debt. The long term debt at a 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 March 31, 2020, a 1% increase/decrease in the rate being charged to the Company would result in a \$434 (Q2 2019 - \$413) 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 March 31, 2020, 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 \$57 (Q2 2019 - \$164).

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

|                             | March 31, 2020  | Sept. 30, 2019   |
|-----------------------------|-----------------|------------------|
| Trade and other receivables | \$ 33,418       | \$ 36,332        |
| Trade and other payables    | (12,241)        | (5,955)          |
| Advances from related party | (18,640)        | (16,505)         |
| Long term debt              | (310)           | (310)            |
|                             | <u>\$ 2,227</u> | <u>\$ 13,562</u> |

The Company is partially 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 March 31, 2020, the Company had no U.S. to Canadian dollar foreign currency forward contracts (September 30, 2019 - \$Nil). Fair value adjustments are recognized within (gain) loss on foreign exchange in the consolidated statement of comprehensive income.

### Liquidity Risk

Investments to drive growth can require significant financial resources. A range of funding alternatives is available to the Company including cash on hand, cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. The Company has current credit facilities of \$60,000 in place. Actual bank funding may differ as the result of margin availability. As at March 31, 2020 the Company had access to \$58,000 (September 30, 2019 - \$54,000) The Company manages its liquidity risk by forecasting cash flows and determining if the credit facilities in place are adequate or if additional financing would be required.

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

The 2021 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:

|  | 2021              | 2022        | 2023        | 2024        | 2025          | Post 2025   | Total             |
|--|-------------------|-------------|-------------|-------------|---------------|-------------|-------------------|
| Bank indebtedness                        | \$ 31,660         | \$ -        | \$ -        | \$ -        | \$ -          | \$ -        | \$ 31,660         |
| Accounts payable and accrued Liabilities | 119,831           | -           | -           | -           | -             | -           | 119,831           |
| Due to related party                     | 27,669            | -           | -           | -           | -             | -           | 27,669            |
| Long term debt                           | -                 | -           | -           | -           | 440           | -           | 440               |
| Total                                    | <u>\$ 179,160</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 440</u> | <u>\$ -</u> | <u>\$ 179,660</u> |

### Credit Risk

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.

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:

|   | March 31, 2020   | Sept. 30, 2019   |
|---|------------------|------------------|
| Current - neither impaired nor past due | \$ 49,544        | \$ 47,572        |
| Not impaired but past the due date:     |                  |                  |
| Within 30 days                          | 2,089            | 2,558            |
| 31-60 Days                              | 673              | 1,541            |
| Over 60 days                            | 9,822            | 8,973            |
|   | <u>62,128</u>    | <u>60,644</u>    |
| Less: Allowance for doubtful accounts   | (1,325)          | (1,271)          |
| Total receivables, net                  | <u>\$ 60,803</u> | <u>\$ 59,373</u> |

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

|  | YTD 2020          | YTD 2019          |
|--|-------------------|-------------------|
| Balance, beginning of period               | \$ (1,271)        | \$ (1,013)        |
| Provisions for the year, net of recoveries | 20                | (60)              |
| Uncollectible amounts written off          | -                 | -                 |
| Foreign exchange impact                    | (74)              | (67)              |
| Balance, end of period                     | <u>\$ (1,325)</u> | <u>\$ (1,140)</u> |

## 23. Subsequent Event

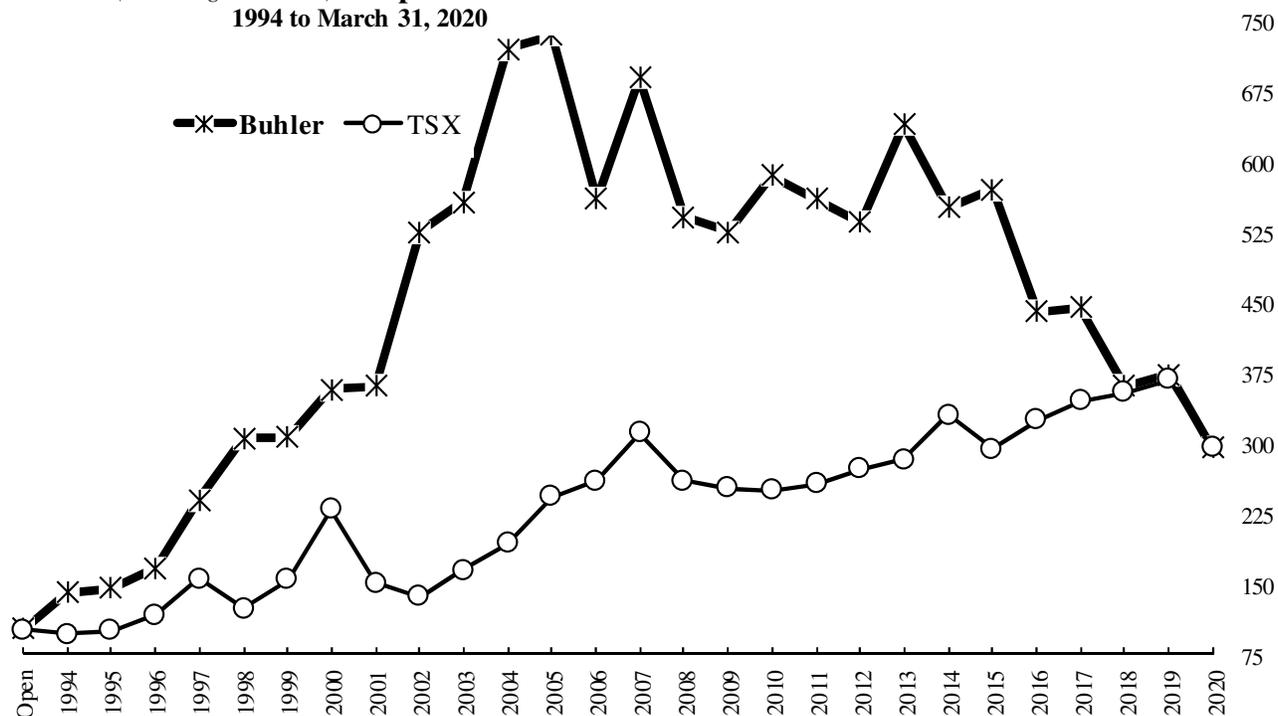
Subsequent to period end, the Company announced the decision to shift certain production from the Fargo facility to the Willmar facility. This streamlining will increase efficiency and reduce overhead costs at the Willmar factory, which manufactures products under the Farm King brand. The Fargo facility will cease operations on September 30, 2020.

# 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 Novoe Sodrugestvo, CJSC         |
| 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                            |
| Neil Frechette                              | Management                       | Director of Information Technology                    |
| 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 March 31, 2020



# Ten Year Summary

| <b>SUMMARY OF OPERATIONS</b>                                | 2010         | 2011          | 2012          | 2013          | 2014          | 2015           | 2016           | 2017       | 2018            | 2019            |
|---|--------------|---------------|---------------|---------------|---------------|----------------|----------------|------------|-----------------|-----------------|
| Reported standards utilized                                 | GAAP         | IFRS          | IFRS          | IFRS          | IFRS          | IFRS           | IFRS           | IFRS       | IFRS            | IFRS            |
| In thousands of Canadian dollars (except per share amounts) |              |               |               |               |               |                |                |            |                 |                 |
| Revenue   | 209,634      | 282,728       | 361,234       | 340,349       | 325,501       | 245,676        | 274,067        | 311,974    | 287,984         | <b>229,119</b>  |
| Cost of goods sold  | 172,278      | 239,488       | 305,480       | 283,031       | 277,791       | 223,410        | 252,841        | 275,821    | 254,510         | <b>218,776</b>  |
| Gross profit  | 37,356       | 43,240        | 55,754        | 57,318        | 47,730        | 22,266         | 21,226         | 36,153     | 3,474           | <b>10,343</b>   |
| Selling & admin. expense                                    | 19,093       | 20,897        | 23,292        | 22,529        | 25,239        | 26,278         | 25,894         | 26,766     | 25,979          | <b>23,974</b>   |
| Income from operations                                      | 18,263       | 22,343        | 32,462        | 34,789        | 22,491        | (4,012)        | (4,668)        | 9,387      | (22,505)        | <b>(13,631)</b> |
| Gain on sale of capital assets                              | (3,477)      | (1,184)       | (1,213)       | (74)          | (401)         | (114)          | (8,160)        | (4,066)    | (2,381)         | <b>(19,437)</b> |
| Interest income   | -            | (557)         | (553)         | (300)         | (314)         | (376)          | (332)          | (332)      | (511)           | <b>(568)</b>    |
| Interest expense  | 1,407        | 3,004         | 3,507         | 4,459         | 3,741         | 3,345          | 4,315          | 5,926      | 7,894           | <b>9,050</b>    |
| Amortization  | 3,584        | -             | -             | -             | -             | -              | -              | -          | -               | -               |
| Foreign exchange (gain) loss                                | -            | (1,940)       | 2,705         | (3,586)       | (3,497)       | (200)          | (789)          | 1,152      | 622             | <b>494</b>      |
| Share of income of joint venture                            | -            | -             | -             | (605)         | (628)         | (473)          | (780)          | (521)      | (481)           | <b>(540)</b>    |
| Research & development exp.                                 | 7,534        | 7,480         | 8,375         | 8,533         | 8,663         | 8,323          | 8,739          | 9,604      | 12,345          | <b>7,802</b>    |
| Net earnings before taxes                                   | 9,215        | 15,540        | 19,641        | 26,362        | 14,927        | (14,517)       | (7,661)        | (2,376)    | (39,993)        | <b>(10,432)</b> |
| Income taxes (expense)                                      | (1,035)      | (3,623)       | (3,278)       | (6,471)       | (2,469)       | (9,201)        | (4,984)        | (2,896)    | 9,539           | <b>19,057</b>   |
| <b>NET EARNINGS</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>(29,489)</b> |
| <b>CASH FLOW SUMMARY</b>                                    |              |               |               |               |               |                |                |            |                 |                 |
| Capital asset purchases                                     | 4,039        | 9,662         | 2,444         | 5,857         | 4,639         | 3,216          | 2,785          | 2,963      | 4,799           | <b>943</b>      |
| Long term debt incurred                                     | 2,437        | 17,068        | -             | -             | -             | -              | -              | -          | 385             | -               |
| Reduction of long term debt                                 | 1,368        | 1,550         | 5,949         | 2,139         | 3,191         | 4,968          | 2,642          | -          | -               | -               |
| Dividends paid  | -            | -             | -             | -             | -             | -              | -              | -          | -               | -               |
| Net cash flow   | 11,295       | 16,287        | 21,203        | 24,336        | 17,871        | (633)          | 1,230          | 4,219      | (46,225)        | <b>(26,032)</b> |
| Net cash (bank indebtedness)                                | (4,772)      | (10,515)      | 19,293        | 24,160        | (51,715)      | (52,830)       | (20,452)       | (12,553)   | (37,254)        | <b>(37,722)</b> |
| <b>BALANCE SHEET SUMMARY</b>                                |              |               |               |               |               |                |                |            |                 |                 |
| Cash, receivables and prepaid expenses                      | 57,573       | 74,422        | 79,849        | 85,491        | 102,473       | 80,555         | 73,680         | 73,983     | 63,884          | <b>67,331</b>   |
| Inventory   | 102,573      | 126,998       | 131,703       | 153,325       | 213,089       | 201,463        | 142,372        | 180,911    | 171,612         | <b>165,631</b>  |
| Total current assets  | 160,146      | 201,420       | 211,552       | 238,816       | 315,562       | 282,018        | 216,052        | 254,894    | 235,496         | <b>232,962</b>  |
| Total assets  | 197,203      | 241,733       | 250,755       | 283,403       | 362,844       | 339,029        | 278,415        | 319,739    | 290,378         | <b>262,604</b>  |
| Total current liabilities                                   | 58,947       | 78,065        | 78,624        | 97,451        | 167,339       | 151,029        | 93,078         | 133,907    | 153,670         | <b>155,370</b>  |
| Total short and long term debt                              | 2,189        | 17,695        | 11,746        | 9,607         | 6,857         | 2,669          | -              | -          | 401             | <b>411</b>      |
| Total liabilities   | 64,558       | 97,171        | 89,830        | 102,587       | 169,570       | 151,071        | 93,134         | 133,938    | 154,109         | <b>155,824</b>  |
| Total shareholders equity                                   | 132,645      | 144,562       | 160,925       | 180,816       | 193,274       | 187,958        | 185,281        | 185,801    | 136,269         | <b>106,780</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   | 101,199      | 123,355       | 132,928       | 141,365       | 148,223       | 130,989        | 122,974        | 120,987    | 81,826          | <b>77,592</b>   |
| <b>DATA PER COMMON SHARE</b>                                |              |               |               |               |               |                |                |            |                 |                 |
| Revenue   | \$ 8.39      | \$ 11.31      | \$14.45       | \$13.61       | \$13.02       | \$9.83         | \$10.96        | \$12.48    | \$11.52         | <b>\$9.16</b>   |
| EBITDA  | 0.57         | 0.89          | 1.10          | 1.41          | 0.96          | (0.26)         | 0.02           | 0.27       | (1.15)          | <b>0.08</b>     |
| Price to EBITDA   | 10.2         | 6.3           | 4.9           | 4.5           | 5.7           | (22.0)         | 196.1          | 16.6       | (3.1)           | <b>44.9</b>     |
| EBIT  | 0.42         | 0.72          | 0.90          | 1.23          | 0.73          | (0.46)         | (0.15)         | 0.13       | (1.30)          | <b>(0.08)</b>   |
| Net earnings  | 0.33         | 0.48          | 0.65          | 0.80          | 0.50          | (0.21)         | (0.11)         | 0.02       | (1.98)          | <b>(1.18)</b>   |
| Price to earnings   | 17.61        | 11.75         | 8.17          | 8.04          | 11.06         | (24.81)        | (41.09)        | 213.94     | (1.82)          | <b>(3.16)</b>   |
| Cash flow   | 0.45         | 0.65          | 0.85          | 0.97          | 0.71          | (0.03)         | 0.05           | 0.17       | (1.85)          | <b>(1.04)</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   | 5.81         | 5.60          | 5.35          | 6.40          | 5.51          | 5.70           | 4.40           | 4.45       | 3.60            | <b>3.73</b>     |
| Shareholders' equity  | 5.31         | 5.78          | 6.44          | 7.23          | 7.73          | 7.52           | 7.41           | 7.43       | 5.45            | <b>4.27</b>     |
| <b>STATISTICAL DATA</b>                                     |              |               |               |               |               |                |                |            |                 |                 |
| Current ratio   | 2.7          | 2.6           | 2.7           | 2.5           | 1.9           | 1.9            | 2.3            | 1.9        | 1.5             | <b>1.5</b>      |
| Interest bearing debt/ equity ratio                         | 0.2          | 0.1           | 0.1           | 0.1           | 0.3           | 0.3            | 0.1            | 0.1        | 0.3             | <b>0.4</b>      |
| Inventory turnover  | 1.8          | 1.9           | 2.4           | 2.0           | 1.5           | 1.1            | 1.5            | 1.7        | 1.6             | <b>1.3</b>      |
| Gross margin (% of revenue)                                 | 17.8%        | 15.3%         | 15.4%         | 16.9%         | 14.7%         | 9.1%           | 7.7%           | 11.6%      | 1.2%            | <b>4.5%</b>     |
| Selling & Admin. (% of revenue)                             | 9%           | 7%            | 6%            | 7%            | 8%            | 11%            | 9%             | 9%         | 9%              | <b>10%</b>      |
| EBITDA (% of revenue)                                       | 7%           | 8%            | 8%            | 10%           | 7%            | (3%)           | 0%             | 2%         | (10%)           | <b>1%</b>       |
| Net earnings (% of revenue)                                 | 4%           | 4%            | 5%            | 6%            | 4%            | (2%)           | (1%)           | 0%         | (17%)           | <b>(13%)</b>    |
| Return on average capital                                   | 6%           | 8%            | 10%           | 11%           | 12%           | (3%)           | (1%)           | 0%         | (31%)           | <b>(24%)</b>    |
| Return on average equity                                    | 6%           | 9%            | 11%           | 12%           | 13%           | (3%)           | (1%)           | 0%         | (31%)           | <b>(24%)</b>    |