



**INPUT CAPITAL**  
THE AGRICULTURE STREAMING COMPANY

**Unaudited Condensed Interim**

**Financial Statements**

**for the three months ended December 31, 2018**

## **UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Input Capital Corp. discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the three month periods ended December 31, 2018 and 2017.

## **CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

*(Unaudited)*

	Note	As at December 31, 2018	As at September 30, 2018
<b>ASSETS</b>			
<b>Current</b>			
Cash	6	\$ 20,024,870	\$ 14,876,770
Trade and other receivables	5, 7	3,829,445	4,463,409
Crop interests	5, 7	8,076,783	8,241,346
Other financial assets	5, 7	1,227,060	3,021,252
Assets held for sale	8	1,661,408	827,653
Prepaid expenses		366,952	590,402
Mortgages and loans receivable	5, 9	1,153,522	1,129,912
		\$ 36,340,040	\$ 33,150,744
<b>Non-current</b>			
Crop interests	5, 7	\$ 25,122,347	\$ 29,092,845
Deferred income tax assets	17	4,064,041	3,592,335
Capital and intangible assets		145,344	157,283
Mortgages and loans receivable	5, 9	57,083,638	53,071,720
		\$ 122,755,410	\$ 119,064,927
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables	5, 7, 21	\$ 5,330,015	\$ 3,820,191
Revolving credit	5, 10	1,577,687	3,686,707
Income tax payable	17	189,765	219,861
Long-term debt	5, 12	272,674	197,674
		\$ 7,370,141	\$ 7,924,433
<b>Non-current</b>			
Long-term debt	12	\$ 16,165,602	\$ 9,769,602
		\$ 16,165,602	\$ 9,769,602
<b>EQUITY</b>			
Share capital	13	\$ 109,716,643	\$ 110,277,708
Contributed surplus		3,571,855	3,404,119
Deficit	3	(14,068,831)	(12,310,935)
		\$ 99,219,667	\$ 101,370,892
		\$ 122,755,410	\$ 119,064,927

**ON BEHALF OF THE BOARD**

"Douglas Emsley", Director

"David H. Laidley", FCPA, FCA,  
Director

*- The accompanying notes are an integral part of these unaudited condensed interim financial statements -*

**CONDENSED INTERIM STATEMENTS OF INCOME (LOSS)  
AND COMPREHENSIVE INCOME (LOSS)**

*(Unaudited)*

	Note	Three months ended December 31, 2018	Three months ended December 31, 2017
<b>Revenue</b>			
Crop	14	\$ 24,058,425	\$ 25,434,478
Interest		1,182,976	253,152
Rental		12,500	93,541
		\$ 25,253,901	\$ 25,781,171
<b>Expenses</b>			
Corporate administration	16	\$ 1,827,495	\$ 1,860,333
Interest expense	10, 11	213,537	47,060
Purchase of crop and other direct expenses	14	3,434,689	3,601,935
Realization of crop interests	14	18,834,485	18,544,346
		\$ 24,310,206	\$ 24,053,674
<b>Other income (loss)</b>			
Gain from settlement of crop interests	15	\$ 97,041	\$ 421,069
Realized loss on futures and options	7	(170,317)	(339,810)
Other income	6	100,707	72,886
		\$ 27,431	\$ 154,145
<b>Profit before the undernoted</b>			
		\$ 971,126	\$ 1,881,642
Unrealized market value loss	7	(1,881,098)	(1,031,262)
<b>Net income (loss) before income tax</b>			
		\$ (909,972)	\$ 850,380
Income tax expense (recovery)	17	(200,411)	268,729
<b>Net income (loss) and comprehensive income (loss)</b>			
		\$ (709,561)	\$ 581,651
<b>Basic income (loss) per share</b>			
	13	\$ (0.01)	\$ 0.01
<b>Fully diluted income (loss) per share</b>			
	13	(0.01)	0.01

- The accompanying notes are an integral part of these unaudited condensed interim financial statements -

## **CONDENSED INTERIM STATEMENTS OF CASH FLOWS**

*(Unaudited)*

Cash flow from (applied to)	Note	Three months ended December 31, 2018	Three months ended December 31, 2017
<b>Operating activities</b>			
<b>Net loss for the period</b>		\$ (709,561)	\$ 581,651
Adjustments			
Amortization of capital and intangible assets		11,939	11,736
Deferred share unit (gain) expense	20	(24,699)	52,324
Deferred income tax recovery	17	(471,705)	(314,207)
Interest revenue		(1,273,517)	(326,038)
Interest received		1,859,839	198,118
Realization of crop interests	7, 14	19,078,279	20,602,268
Share based payments	12	167,736	163,693
Gain from buy back of crop interests	7	(11,380)	(55,400)
Realized loss on crop futures and options	7	170,317	339,810
Unrealized market value loss	7	1,881,098	1,031,262
Changes in non-cash working capital	18	1,296,731	6,298,215
<b>Cash generated from operating activities</b>		<b>\$ 21,975,077</b>	<b>\$ 28,583,432</b>
<b>Investing activities</b>			
Acquisition of crop interests	7	(14,154,844)	(12,828,813)
Proceeds from buy back of crop interests	7	151,782	433,640
Proceeds from contracts in restructuring and or security realization	7	-	631,878
Acquisition of assets held for sale		(833,755)	-
Issuance of mortgages and loans receivable	9	(4,957,900)	-
Proceeds from repayment of mortgages and loans receivable	9	169,027	-
Net cost of futures and options	7	(170,317)	(438,209)
Purchase of capital and intangible assets		-	(27,372)
<b>Cash applied to investing activities</b>		<b>\$ (19,796,007)</b>	<b>\$ (12,228,876)</b>
<b>Financing activities</b>			
Dividends paid	12	(831,885)	(826,728)
Net repayment on revolving credit facility	10	(2,109,020)	(4,843,220)
Net draws on long-term debt	11	6,471,000	-
Purchase of common shares	12	(561,065)	(185,828)
Proceeds from shares issued	12	-	2,229,602
<b>Cash generated from (applied to) financing activities</b>		<b>\$ 2,969,030</b>	<b>\$ (3,626,174)</b>
Net increase in cash		5,148,100	12,728,382
Cash – beginning of the period		14,876,770	17,614,846
Cash - end of the period		<b>\$ 20,024,870</b>	<b>\$ 30,343,228</b>

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## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Note	Share Capital		Contributed Surplus	Retained Earnings	Total
		Number	Amount	Share Options	(Deficit)	
At September 30, 2017	12	82,672,758	\$ 109,741,237	\$ 2,938,933	\$ (7,561,662)	\$ 105,118,508
Options exercised		2,229,602	\$ 2,560,029	\$ (330,427)	\$ -	\$ 2,229,602
NCIB shares purchased for cancellation		(118,200)	(185,828)	-	-	(185,828)
Share based payment – options		-	-	163,693	-	163,693
Dividends		-	-	-	(848,025)	(848,025)
Total comprehensive income		-	-	-	581,651	581,651
At December 31, 2017	12	84,784,160	\$ 112,115,438	\$ 2,772,199	\$ (7,828,036)	\$ 107,059,601
NCIB shares purchased for cancellation		(1,533,200)	\$ (1,837,730)	\$ -	\$ -	\$ (1,837,730)
Share based payment – options		-	-	631,920	-	631,920
Dividends		-	-	-	(2,518,026)	(2,518,026)
Total comprehensive loss		-	-	-	(1,964,873)	(1,964,873)
At September 30, 2018	12	83,250,960	\$ 110,277,708	\$ 3,404,119	\$ (12,310,935)	\$ 101,370,892
NCIB shares purchased for cancellation		(709,000)	\$ (561,065)	\$ -	\$ -	\$ (561,065)
Share based payment – options		-	-	167,736	-	167,736
Impact of adopting new accounting standards	3	-	-	-	(221,853)	(221,853)
Dividends		-	-	-	(826,482)	(826,482)
Total comprehensive loss		-	-	-	(709,561)	(709,561)
At December 31, 2018	12	82,541,960	\$ 109,716,643	\$ 3,571,855	\$ (14,068,831)	\$ 99,219,667

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 - unaudited

## 1. Nature of operations

Input Capital Corp. (the "Company" or "Input") is a Canadian Grain Commission licensed and bonded grain company that acquires canola from farmers through multi-year canola streaming contracts. In return for providing capital for land financing and/or working capital purposes, the Company receives the right to receive and/or purchase a specified number of tonnes of canola each year over the life of the agreement.

The predecessor of Input was incorporated under The Business Corporations Act (Saskatchewan) (the "Act") on October 25, 2011. The existing Company was formed by an amalgamation under the Act on August 8, 2013. The Company's shares are publicly traded on the TSX Venture Exchange, under the symbol "INP".

The head office of the Company is located at 300 – 1914 Hamilton Street, Regina, Saskatchewan, S4P 3N6. The Company's registered and records office is located at 800 – 1801 Hamilton Street, Regina, Saskatchewan, S4P 4B4.

The agriculture industry is subject to a high degree of seasonality. The Company's revenue is received from crop deliveries and sales over several months after the harvest has been completed. The Company normally expects to recognize the majority of its annual revenues during its first and second fiscal quarters, while capital deployment will be spread throughout the year, with concentration in the October to June period.

These unaudited condensed financial statements were authorized for issue by the Board of Directors on February 26, 2019.

## 2. Basis of presentation

### A. STATEMENT OF COMPLIANCE

These unaudited condensed financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC"). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements as at and for the period ended September 30, 2018.

### B. BASIS OF PREPARATION

These unaudited condensed financial statements have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- Financial instruments that are accounted for according to the financial instrument categories defined in Note 3.
- Share purchase options and deferred share units that are accounted for according to the share-based payments criteria defined in Note 4I.

### C. FUNCTIONAL AND PRESENTATIONAL CURRENCY

The unaudited condensed financial statements are presented in Canadian dollars, the functional currency of the Company, and all values are rounded to the nearest dollar with the exception of share and per share value.

### D. USE OF ESTIMATES AND JUDGMENTS

The preparation of unaudited condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Significant areas requiring the use of management estimates are further described in the following summary of significant accounting policies and notes:

- Fair value of financial instruments (Note 5).
- Fair value of assets held for sale (Note 4D).
- Fair value of mortgages and loans receivable (Note 4E)
- Fair value of crop interests (Note 4A)

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 - unaudited

Areas of judgement in applying accounting policies that have the most significant effect on the amount recognized in the financial statements include:

- Fair value of financial instruments (Notes 5);
- Fair value of assets held for sale (Note 4D).
- Deferred income tax assets and recovery of deferred income tax assets (Note 4F); and
- The acquisitions of crop interests are considered an investing activity.

In preparing these unaudited condensed financial statements, management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

### 3. *New standards and interpretations*

The International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for future periods. Standards required to be applied and that will have an impact for Input are outlined below:

Proposed Standard	Description	Effective Date	Expected Impact
IFRS 16 – Leases	The new standard specifies how an IFRS reporter will recognize, measure, present and disclose leases.	Fiscal years beginning on or after January 1, 2019, applied retrospectively.	We are currently assessing the impact that IFRS 16 will have on our financial statements.
IFRIC Interpretation 23 - Uncertainty over income tax treatments	The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in certain circumstances in which there is uncertainty over income tax treatments.	Fiscal years beginning on or after January 1, 2019, applied prospectively.	We are currently assessing the impact that IFRIC 23 will have on our financial statements.

Input has initially applied IFRS 15 (see A) and IFRS 9 (see B) effective October 1, 2018. A number of other new standards are also effective from October 1, 2018, but they do not have a material impact on the Company's financial statements.

Due to the transition methods chosen by Input in applying these standards, comparative information throughout these unaudited condensed financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to increased disclosure within the condensed interim financial statements. Each new standard is outlined below.

#### A. *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive model for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Input has adopted IFRS 15 using the cumulative effect adjustment method, with the effect of initially applying this standard recognized at the date of initial application (i.e. October 1, 2018). Accordingly, the information presented for the comparative figures has not been restated. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

After review of IFRS 15, it was determined that there was no cumulative adjustment required on initial application.

#### B. *IFRS 9 Financial Instruments*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 - unaudited

### i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Input's accounting policies related to financial liabilities and derivative financial instruments.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at October 1, 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at October 1, 2018 relates solely to the new impairment requirements.

	Note	Original classification (IAS 39)	New classification (IFRS 9)	Original carrying amount (IAS 39)	New carrying amount (IFRS 9)
<b>Financial assets</b>					
Cash		Loans and receivables	Amortized cost	\$ 14,876,770	\$ 14,876,770
Trade and other receivables	a	Loans and receivables	Amortized cost	4,463,409	4,438,434
Crop interests		FVTPL	FVTPL	37,334,191	37,334,191
Other financial assets		FVTPL	FVTPL	3,021,252	3,021,252
Mortgages and loans receivable	b	Loans and receivables	Amortized cost	54,201,632	53,923,223
<b>Total financial assets</b>				<b>\$ 113,897,254</b>	<b>\$ 113,593,870</b>

	Note	Original classification (IAS 39)	New classification (IFRS 9)	Original carrying amount (IAS 39)	New carrying amount (IFRS 9)
<b>Financial liabilities</b>					
Trade and other payables		Other financial liabilities	Amortized cost	\$ 3,820,191	\$ 3,820,191
Revolving credit		Other financial liabilities	Amortized cost	3,686,707	3,686,707
Long-term debt		Other financial liabilities	Amortized cost	9,967,276	9,967,276
<b>Total financial liabilities</b>				<b>\$ 17,474,174</b>	<b>\$ 17,474,174</b>

- a Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of \$24,975 in the allowance for impairment over these receivables was recognized in opening retained earnings at October 1, 2018 on transition to IFRS 9.
- b Mortgages and loans receivable that were previously classified as loans and receivables are now classified at amortized cost. Input intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. An increase of \$278,409 thousand in the allowance for impairment was recognized in opening retained earnings at October 1, 2018 on transition to IFRS 9.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 - unaudited

### ii. Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Input has determined that the application of IFRS 9's impairment requirements at October 1, 2018 results in an additional allowance for impairment as follows.

Trade and other receivables	
Loss allowance at September 30, 2018 under IAS 39	\$ -
Additional impairment recognized at October 1, 2018	24,975
Loss allowance at October 1, 2018 under IFRS 9	\$ 24,975
Mortgages and loans receivable	
Loss allowance at September 30, 2018 under IAS 39	\$ 1,900,087
Additional impairment recognized at October 1, 2018	278,409
Loss allowance at October 1, 2018 under IFRS 9	\$ 2,178,496

### iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. Input has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings, net of tax, as at October 1, 2018. The total impact on retained earnings is \$221,853. Accordingly, the information presented for the year ended September 30, 2018 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The details of new significant accounting policies and effect of changes to previous accounting policies are set out below.

#### Financial assets

Financial assets are initially measured at fair value. On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless Input changes its business model for managing financial assets.

#### Derivative financial instruments

Derivatives embedded in contracts where the host is a financial asset are not separated and the hybrid financial instrument as a whole is assessed for classification and measurement. Derivatives are recognized initially at fair value with attributable transaction costs recognized in net earnings as incurred. Subsequent to initial measurement, derivatives are measured at fair value and the changes in fair value are recognized immediately in net earnings.

#### Allowance for credit losses on financial assets

The new expected loss impairment model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the previous approach where the allowance recorded was designed to capture only losses that were incurred whether or not they had been specifically identified.

The most significant impact of the new standard is on Input's net mortgage and loans receivable. Input recognizes an allowance for credit losses that represents management's best estimate of the expected losses in the mortgage and other loans receivable portfolio at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 - unaudited

The expected loss impairment model applies a three-stage approach to measure the allowance for credit losses:

- Stage 1 Represents performing financial assets not yet individually identified as credit impaired. On initial recognition, a twelve month expected credit losses are recognized in profit or loss and a loss allowance is established.
- Stage 2 Also represents performing financial assets not yet individually identified as credit impaired. If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, then stage 1 credit losses are recognized.
- Stage 3 Represents impaired financial assets individually identified as credit impaired. When a financial asset is considered credit impaired, full lifetime expected credit losses are recognized and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

At each balance sheet date, Input assesses whether a significant increase in credit risk has taken place since initial recognition of the mortgage or loan receivable to determine the changes between stages 1 and 2. In assessing whether credit risk has increased significantly, Input considers the following factors:

- whether financial assets are considered to have low credit risk at the reporting date;
- the risk of a default occurring on the financial asset as at the reporting date is compared with the risk of a default occurring on the financial asset as at the date of initial recognition;
- qualitative information available as at the reporting date; and
- days past due

A stage 3 credit impaired mortgage or loan receivable is any mortgage or loan receivable where, in management's opinion, the credit quality has deteriorated to the extent that Input no longer has reasonable assurance of timely collection of the full amount of principal and interest. When a mortgage or loan receivable is classified as stage 3 credit-impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount that arise subsequent to the initial impairment are also adjusted through the allowance for credit losses.

The impairment loss is calculated as the difference between the mortgage or loan receivable's carrying value and the present value of estimated future cash flows discounted at the mortgage or loan receivable's original effective interest rate. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security.

All payments received on an impaired mortgage or loan receivable are credited against the recorded investment in the mortgage or loan receivable. The mortgage or loan receivable reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired mortgage or loan receivable is restored to performing status, the remaining individual allowance for credit losses is reversed. Mortgage or loan receivables and their stage 3 allowance for credit losses are written off, either partially or in full, when there is no realistic prospect of future recovery.

#### 4. *Key sources of estimation uncertainty and critical accounting judgments*

Information about significant areas of estimation uncertainty and judgments made by management in preparing the unaudited condensed interim financial statements are described below.

##### A. CROP INTERESTS

Crop interests are agreements for which settlements are called for in tonnes of crop, the amount of which is determined based on terms in the crop purchase agreements which are capitalized on a contract by contract basis and are recorded at fair value. As the contracts contain an embedded derivative relating to the market value of crop, at each reporting date the fair value of each contract is calculated using internal discounted cash flow models that rely on forward commodity pricing provided by independent sources. Other variables that impact the fair value of crop interests include the timing of the delivery of the crop, changes in expected costs of realizing on the contract, and changes in the risk free interest rate. Subsequent changes in fair value of these derivative financial instruments are recognized in profit or loss in unrealized market value gain or loss. Realized gains and losses that result from the sale are recognized in profit or loss in realization of crop interests.

Included in crop interests are contracts that are in the process of restructuring and or security realization. These contracts are fair valued at the time of initiating restructuring or realization and subsequently recorded at cost less any write downs for impairment. Legal and other expenses relating to enforcement of security are expensed as incurred. Contracts in the process of security realization are fair valued at each reporting date based on the expected amount of capital to be recovered net of legal and other costs to determine if impairment exists.

## **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2018 - unaudited

### **B. REALIZATION OF CROP INTERESTS**

The initial upfront payment allocated to crop interests is capitalized. Upfront payments are refundable deposits allocated to crop interests and are recorded as realization of crop interests on a proportionate contractual unit basis as sales are recorded for each specific contract. Crop payments are recorded as realization of crop interests on a unit basis as sales are recorded for each specific contract. Realized market value gains and losses that result from the sale of tonnes of crop are recognized in profit or loss in realization of crop interests. Realized market value gains and losses that result from contract buy backs are recognized in profit or loss as a gain (loss) from settlements of crop interests.

### **C. OTHER FINANCIAL ASSETS**

Other financial assets includes delivery and basis price contracts with grain companies, farmers and canola crushing facilities. These contracts are generally settled by delivery of tonnes or in cash. At each reporting date the fair value of each contract is calculated using current and future pricing provided by independent sources. Subsequent changes in fair value of these derivative financial instruments are recognized in profit or loss in unrealized market value adjustments.

Part of the Company's crop marketing program involves the purchase of crop futures and options contracts to maintain an open pricing position. These contracts are settled in cash and at each reporting date the fair value of open contracts is calculated using current crop pricing provided by independent sources. Subsequent changes in fair value of these derivative financial instruments are recognized in profit or loss in unrealized market value adjustments. Realized gains and losses relating to these contracts are recognized in realized gain (loss) on crop futures and options.

### **D. ASSETS HELD FOR SALE**

Assets held for sale consists of land and other assets registered in Input's name resulting from Input enforcing security under contracts being terminated or as a result of contract buy backs. These assets are recorded at fair value based on quoted market prices for similar assets with an offsetting reduction in crop interests. These assets are expected to be sold in the near term. Subsequent changes in the fair value, if any, are recorded in other income in the statement of net income (loss) and comprehensive income (loss).

### **E. MORTGAGES AND LOANS RECEIVABLE**

Mortgages and loans receivable include mortgages and other loans that contain fixed and determinable payments. Upon initial recognition, these are recognized at fair value. Subsequently these assets are carried at amortized cost less expected credit losses. Interest revenue is recorded on an accrual basis provided that the mortgage or loan is not impaired.

### **F. INCOME TAXES**

Taxation on earnings comprises current and deferred income tax. Taxation is recognized in the statement of net income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized in equity, in which case the tax is recognized directly in equity.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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 tax benefit will be realized.

### **G. REVENUE RECOGNITION**

Sales of crop are recognized when persuasive evidence of an arrangement exists, title and risk passes to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale will flow to the Company and the costs incurred in respect of the transaction can be measured reliably.

Interest revenue on mortgages and loans receivable and interest on trade and other receivables is recorded on an accrual basis provided that the mortgage or loan or receivable is not impaired.

Rental revenue on assets held under an agreement for sale is recognized on a straight-line basis over the term of the agreement.

## NOTES TO THE FINANCIAL STATEMENTS

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### H. NET SETTLEMENT OF CROP INTERESTS

In addition to regular crop deliveries, crop tonnage obligations outstanding on crop streaming contracts may also be settled by the farm operator directly through payment in cash, through cash proceeds received from crop insurance, through a conventional mortgage receivable with the Company, through a receivable agreement with the Company, or through a land transfer to the Company. These transactions do not result in the title and risk of the crop passing to a purchaser from Input and are considered to be the settlement of a financial asset with the farm operator. As a result, these transactions are not recorded as crop revenue. When cash proceeds are not received as the means of settlement, the transaction is valued at fair value. These transactions are recorded as a gain or loss from settlements of crop interests on the statement of net income (loss) and comprehensive income (loss).

### I. SHARE BASED PAYMENTS

The Company recognizes share based compensation expense for all share purchase options awarded to employees, officers and directors based on the fair values of the share purchase options at the date of grant. The fair value of share purchase options at the date of grant is expensed over the vesting period of the options with a corresponding increase to equity in contributed surplus. The fair value of share purchase options is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revisions to this estimate in the statement of net income (loss) and comprehensive income (loss).

The Black-Scholes model requires management to estimate the expected volatility and term of the equity instrument, the risk-free rate of return over the term, expected dividends, and the number of equity instruments expected to ultimately vest. Volatility is estimated using the historical stock price of the Company, the expected term is estimated using historical exercise data, and the expected number of equity instruments expected to vest is estimated using historical forfeiture data. If and when share-based awards are ultimately exercised, the applicable amounts in Contributed Surplus are transferred to Share Capital.

The Company has a Deferred Share Unit Plan (the "DSU Plan") whereby the Company grants deferred share units ("DSUs") to eligible directors. The DSUs are cash-settled payment transactions and are valued at the fair value of the rights based on the closing share price at the end of the reporting period.

## 5. Financial instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value hierarchy establishes three levels to classify the inputs of valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- Level 1 – Fair values are determined using inputs that are quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Fair values are determined using inputs, other than quoted prices in level 1, that are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liabilities. In determining the inputs for calculating fair values, Input looks for readily observable market inputs, primarily interest rates and forward prices based on the nature of Input's derivative instruments.
- Level 3 – Fair values are determined based on inputs for the asset or liability that are not based on observable market data. Crop interest values are calculated using internal discounted cash flow models that rely on forward pricing provided by independent sources and long term basis assumptions.

The following items, shown in the unaudited condensed interim statement for financial position as at December 31, 2018 and September 30, 2018 are measured at fair value on a recurring basis:

	Classification	Level	December 31, 2018	September 30, 2018
Cash	Amortized cost	1	\$ 20,024,870	\$ 14,876,770
Trade and other receivables	Amortized cost	2	3,829,445	4,463,409
Other financial assets	Fair value through profit or loss	2	1,227,060	3,021,252
Crop interests	Fair value through profit or loss	3	33,199,130	37,334,191
Mortgages and loans receivable	Amortized cost	2	58,237,160	54,201,632

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The following table represents the change in fair values and expected credit losses recognized in the condensed interim statement of income (loss) and comprehensive income (loss)

	December 31, 2018	December 31, 2017
Trade and other receivables	\$ 7,330	\$ -
Other financial assets	1,794,192	1,626,280
Crop interests	61,926	(595,018)
Mortgages and loans receivable	17,650	-
Unrealized market value loss	\$ 1,881,098	\$ 1,031,262

Canola purchase agreements contain obligations in that the Company agrees to purchase canola at a specified price at a future date. A summary of the payments due by period is summarized below:

	Payment due by period				
	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
Purchase obligations	\$ 15,603,991	\$ 12,526,264	\$ 5,334,658	\$ -	\$ 33,464,913

Financial liabilities and other contractual obligations at December 31, 2018, and their maturities are summarized below:

	Payment due by period				
	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
Trade and other payables	\$ 5,330,015	\$ -	\$ -	\$ -	\$ 5,330,015

**LOANS AND BORROWINGS** - The Company has a \$25 million revolving credit facility with HSBC Bank Canada. As of December 31, 2018, there was \$1,577,687 (September 30, 2018 - \$3,686,707) drawn on the facility. The covenants of the facility include a maximum total liabilities to tangible net worth ratio of 1 to 1, a minimum current ratio of 1.2 to 1, and a debt service coverage ratio of 1.25 to 1. At December 31, 2018, the Company met all of its covenants as required by the facility.

The Company has debt available from HSBC Bank Canada that is secured against the mortgages underlying mortgage streams with Input clients. This amount is part of the \$25 million revolving credit facility above. As of December 31, 2018, there was \$6,471,000 (September 30, 2018 - \$nil) drawn on the \$10 million available. The covenants of the debt include a maximum total liabilities to tangible net worth ratio of 1 to 1, a minimum current ratio of 1.2 to 1, and a debt service coverage ratio of 1.25 to 1. At December 31, 2018, the Company met all of its covenants as required by the debt agreement.

The Company has term debt with Concentra Bank that is secured against the mortgages underlying mortgage streams with Input clients. As December 31, 2018 there was \$9,967,276 (September 30, 2018 - \$9,967,276) drawn on the \$10 million available. The covenants of the term debt include a minimum debt service coverage ratio of 1.5 to 1. At December 31, 2018, the Company met all of its covenants as required by the debt agreement.

The liabilities and obligations of the Company are secured by all property of the Company including an assignment of the rights of the Company under the streaming contracts and any collateral security granted in favour of the Company in connection with each contract.

### 6. Cash

The Company has pledged \$1,000,000 in cash to secure a letter of credit issued by a Canadian chartered bank in conjunction with the security requirements of the Company's license with the Canadian Grain Commission.

Included in other income is \$90,540 relating to interest earned on cash (September 30, 2018 - \$72,886).

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### 7. Crop interests and other financial assets

	December 31, 2018	September 30, 2018
Crop interests:		
Opening balance - date	October 1, 2018	October 1, 2017
Opening balance	\$ 37,334,191	\$ 66,356,375
Reclassifications on the statement of financial position	1,022,396	816,350
Acquisition of crop interests - upfront payments	-	4,230,548
Acquisition of crop interests - crop payments	14,154,843	15,525,999
Realization of crop interests - upfront payments	(4,710,345)	(10,725,804)
Realization of crop interests - crop payments	(14,325,879)	(16,575,242)
Realization of crop interests - realized market value adjustment	(42,055)	(1,157,275)
Recoveries on contracts that are in the process of restructuring and or security realization	(31,693)	(876,024)
Buy back of crop contracts	(140,402)	(16,472,760)
Market value adjustment	(61,926)	(3,787,976)
	<b>\$ 33,199,130</b>	<b>\$ 37,334,191</b>
Crop interests (including amounts relating to terminated contracts):		
Current	\$ 8,076,783	\$ 8,241,346
Non-current	25,122,347	29,092,845
	<b>\$ 33,199,130</b>	<b>\$ 37,334,191</b>

Included in Trade and other receivables at December 31, 2018 is \$863,558 relating to crop deliveries made for which the payment has not yet been received as at December 31, 2018 (September 30, 2018 - \$619,405). There are \$275,980 in short-term advances to farmers included in trade and other receivables at December 31, 2018 (September 30, 2018 - \$275,980). These advances are interest bearing and approximate fair value given their short-term nature.

The fair value of each streaming contract is calculated using internal discounted cash flow models that rely on forward canola and other correlated commodity pricing provided by independent sources. Other variables that impact the fair value of crop interests include the timing of the delivery of the tonnes, changes in expected costs and cash flows associated with the contract, and changes in the risk free interest rate. Included in the market value adjustment as a reduction to the value of crop interests is a cumulative unrealized market value loss of \$14,468,531 (September 30, 2018 - loss of \$12,815,746) relating to changes in the timing and expected net cash flows associated with the settlement of crop delivery obligations.

As at December 31, 2018 there are streaming contracts that are in the process of restructuring and/or security realization. The value of these contracts included in crop interests at December 31, 2018 is \$13,196,460 (September 30, 2018 - \$9,380,413) which is recorded as a non-current asset. Contracts that are in the process of restructuring or security realization are fair valued at the time at which the contract is determined to need restructuring and subsequently, if necessary, written down for any impairment. Included in Professional fees – legal, accounting, tax and collection expenses under corporate administration expense for the three months ended December 31, 2018 is \$52,547 (three months ended December 31, 2017 - \$226,221) relating to the collection of these accounts.

A producer or the Company may negotiate a buy back of a streaming contract. The Company may accept consideration in the form of cash, conventional mortgages or loans receivable, or assets which will be held for sale. This consideration is used to bring the contract current and then buy back future obligations under the contract. During the three months ended December 31, 2018, the Company received \$481,238 in cash proceeds (three months ended December 31, 2017 - \$433,640) relating to the settlement of future obligations under streaming contracts. The buy back of crop interests resulted in a gain of \$11,380 being recognized in other income - gain from settlement of crop interests (three months ended December 31, 2017 - gain of \$55,400). Included in gain from settlement of crop interests is a realized market value loss of \$5,445 relating to these buy backs (three months ended December 31, 2017 - loss of \$17,500). This loss relates to previously recognized unrealized gains recognized in profit and loss.

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Changes in the fair value of other financial assets are recognized in profit or loss in market value adjustment and as follows:

	December 31, 2018	December 31, 2017
Unrealized market value loss	\$ (1,794,192)	\$ (1,626,280)

Part of the Company's crop marketing program involves the purchase of crop futures and options contracts to maintain an open pricing position. Included in realized loss on futures and options is a loss of \$170,317 for the three months ended December 31, 2018 (three months ended December 31, 2017 - loss of \$339,810).

### 8. Assets held for sale

Assets held for sale result from Input taking ownership of assets as a result of enforcing security on contracts or as a result of contract buy backs. These assets are expected to be sold in the near term. Included in assets held for sale is:

	December 31, 2018	September 30, 2018
Land	\$ 1,661,408	\$ 827,653

### 9. Mortgages and loans receivable

Mortgages and loans receivable consist of conventional first mortgages and loans secured by land and equipment. A continuity schedule of the mortgages and loans receivable is presented below:

At September 30, 2017	\$ 12,328,710
Less payment on loans receivable	(73,500)
At December 31, 2017	12,255,210
Issuance of mortgages and loans receivable	41,992,838
Less payments on loans receivable	(46,416)
At September 30, 2018	54,201,632
Expected credit losses - October 1, 2018 (note 3)	(278,409)
Issuance of mortgages	4,957,900
Less payments on mortgages and loans receivable	(169,027)
Add adjustment to mortgage and loans receivable allowance	14,044
Less mortgage allowance reclassified from canola interests (note 7)	(488,980)
At September 30, 2018	\$ 58,237,160

The weighted average yield of the mortgages and loans is 6.7% and the weighted average term is 4.5 years. The fair value of the loans and mortgages are calculated on a discounted cash flow basis using the prevailing market rates. The fair value of the mortgages and loans receivable at December 31 is \$55,245,096 (September 30, 2018 - \$53,458,837).

The allowance for expected mortgage credit losses as at December 31, 2018 is \$2,653,433 (September 30, 2018 - \$1,900,087). Of this amount, \$2,357,374 resulted from the restructuring of crop interest contracts into a term loans (September 30, 2018 - \$1,900,087). The Company continues to assess the probability and amount of credit losses at each reporting date.

Mortgages and loans receivable principal past due are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at September 30, 2018	\$ 366,329	\$ -	\$ -	\$ 154,706	\$ 521,035



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### 10. Revolving credit

The Company has up to \$15 million in a revolving credit facility with HSBC Bank Canada. The principal amount of each advance is due to be repaid within one year from the date the advance was made. Interest, which is equal to prime plus 1% is payable monthly on the first of each month. A continuity schedule of the Company's revolving debt is presented below:

At September 30, 2017	\$ 6,351,478
Repayments	(4,843,220)
At December 31, 2017	\$ 1,508,258
Advances	4,984,659
Repayments	(2,806,210)
At September 30, 2018	\$ 3,686,707
Repayments	(2,109,020)
At December 31, 2018	\$ 1,577,687

Interest expense relating to the revolving credit facility for the three months ended December 31, 2018 is \$39,314 (three months ended December 31, 2017 - \$47,060).

### 11. Long-term debt

The Company has up to \$10 million in five year term debt available from Concentra Bank. The term debt bears a fixed interest rate of 4.33% and interest is payable semi-annually. The debt is secured by mortgages underlying mortgage streams with Input clients. A continuity schedule of the Company's term debt with Concentra bank is presented below:

At September 30, 2017 and December 31, 2017	\$ -
Advances	9,967,276
At September 30, 2018 and December 31, 2018	\$ 9,967,276

The Company has up to \$10 million in term debt available from HSBC Bank Canada. The term debt bears an interest rate of prime plus 1% (4.95% at December 31, 2018) and interest is payable semi-annually. The debt is secured by mortgages underlying mortgage streams with Input clients. A continuity schedule of the Company's term debt with HSBC bank is presented below:

At September 30, 2018	\$ -
Advances	6,471,000
At December 31, 2018	\$ 6,471,000

Interest expense relating to the term debt for the three months December 31, 2018 is \$174,223 (three months ended December 31, 2017 - \$nil). The carrying value of the term debt approximates its fair value as at December 31, 2018.

The estimated principal repayments on the Company's long-term debt in each of the next five periods is as follows:

2019	\$ 272,674
2020	272,674
2021	272,674
2022	272,674
2023	15,347,580
	\$ 16,438,276

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### 12. Share capital, contributed surplus and retained earnings

#### A. SHARES AUTHORIZED

The Company's authorized share capital consists of an unlimited number of Class "A" common voting shares ("common shares") without par value.

#### B. SHARES ISSUED AND PURCHASED

	December 31, 2018		September 30, 2018	
	Number	\$	Number	\$
Common shares issued	84,902,360	\$112,301,266	84,902,360	\$112,301,266
Shares purchased for cancellation	2,360,400	2,584,623	1,651,400	2,023,558
Common shares outstanding	82,541,960	\$109,716,643	83,250,960	\$110,277,708

The Company has a normal course issuer bid for the repurchase of approximately ten percent of the company's public float in a given year. The bid commenced on December 14, 2017 and was in effect until December 13, 2018. The normal course issuer bid was renewed on December 18, 2018 and will continue until the earlier of December 17, 2019 and the date by which Input has acquired the maximum shares which may be purchased.

During the three months ended December 31, 2018, the Company bought back 709,000 shares under its normal course issuer bid at an average price of \$0.79 per share (year ended September 30, 2018 - 1,651,400 shares at an average price of \$1.23). During the three months ended December 31, 2018, the Company cancelled 760,900 shares (year ended September 30, 2018 - 1,528,500).

#### C. SHARE PURCHASE OPTIONS

The Company has an incentive share purchase option plan (the "Option Plan") whereby the Company may grant share options to eligible employees, officers, directors and consultants at an exercise price, expiry date, and vesting conditions to be determined by the Board of Directors. Each share option converts into one common share of the Company on exercise.

The following option plans were in existence during the current and prior years:

Option series	Number	Expiry date	Exercise price	Fair value at date of grant
(1) granted on December 1, 2013	2,386,622	December 1, 2018	\$ 1.73	\$ 1.73
(2) granted on May 27, 2014	36,600	May 27, 2019	\$ 2.20	\$ 2.20
(3) granted on November 28, 2014	37,218	November 28, 2019	\$ 2.01	\$ 2.01
(4) granted on June 10, 2015	732,100	June 10, 2020	\$ 3.05	\$ 3.05
(5) granted on November 16, 2015	30,900	November 16, 2020	\$ 1.88	\$ 1.88
(6) granted on June 8, 2016	912,700	June 8, 2021	\$ 2.18	\$ 2.18
(7) granted on December 15, 2016	642,900	December 15, 2021	\$ 2.00	\$ 2.00
(8) granted on December 15, 2017	1,781,000	December 15, 2022	\$ 1.54	\$ 1.54
(9) granted on December 21, 2018	941,500	December 21, 2023	\$ 0.80	\$ 0.80

The fair value of the stock options is estimated at the grant date based on the Black-Scholes pricing model using the assumptions below. The assumptions below are for options issued since September 30, 2017 and are based on management's best estimates at the time of issuance.

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Inputs into the model	Option Series	
	Series 8	Series 9
Grant date share price	\$ 1.54	\$ 0.80
Exercise price	\$ 1.54	\$ 0.80
Average vesting period from grant date	3.00 years	3.00 years
Volatility	48.89%	53.02%
Expected life	5.00 years	5.00 years
Dividend yield	2.60%	5.00%
Risk free interest rate	1.65%	1.89%

At December 31, 2018, the following options to purchase common shares were outstanding:

Option series	Average remaining life (in years)	Options outstanding				Total
		Vested	Unvested	Exercised	Expired or cancelled	
Series 1	0.00	2,386,622	-	-	2,386,622	-
Series 2	0.40	36,600	-	-	-	36,600
Series 3	0.91	37,218	-	-	-	37,218
Series 4	1.44	732,100	-	-	30,500	701,600
Series 5	1.88	30,900	-	-	-	30,900
Series 6	2.44	782,146	130,554	-	54,700	858,000
Series 7	2.96	437,994	204,906	-	38,500	604,400
Series 8	3.96	619,690	1,161,310	-	119,700	1,661,300
Series 9	4.97	8,598	932,902	-	-	941,500
Weighted average	3.34	5,071,868	2,429,672	-	2,630,022	4,871,518

### D. DIVIDENDS

The Company declared and paid the following dividends since October 1, 2017 to the shareholders of record on the following dates.

Record date	Dividend per share	Shares outstanding	Total Dividend
December 31, 2017	\$ 0.01	84,802,460	\$ 848,025
March 31, 2018	0.01	84,379,560	843,796
June 30, 2018	0.01	84,172,160	841,722
September 30, 2018	0.01	83,250,960	832,510
December 31, 2018	0.01	82,550,460	826,482

### 13. Basic and diluted weighted average number of common shares

Diluted weighted average number of common shares is based on the following:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Basic weighted average number of shares	83,209,638	83,143,190
Dilutive securities:		
Share options	5,649,011	6,814,349

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When there is a net loss and comprehensive loss the share options are anti-dilutive and therefore the diluted loss per share is the same as the basic loss per share.

### 14. Crop revenue, purchase of crop and other direct expenses, and realization of crop interests

The effect of initially applying IFRS 15 on Input's crop revenue from contracts with customers is described in note 3.

Crop revenue includes the sale of Canola and other crops in Canada to grain elevators and canola crushing facilities. Revenue is recognized when the crop is delivered to and has been accepted on the customers' premises. Revenue is recognized at a point in time and amounts owing are usually paid shortly after delivery. Discounts are only assessed when the quality of the crop delivered does not meet the contracted quality specified.

Crop revenue, realization of crop interests and other direct expenses for crop sales is presented below:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Crop revenue	\$ 24,058,425	\$ 25,434,478
Realization of crop interests		
Upfront payments	4,571,263	7,231,518
Crop payments	14,225,686	11,140,742
Realized market value expense (gain)	37,536	172,086
Other direct expenses	3,434,689	3,601,935
Profit from crop contracts	\$ 1,789,251	\$ 3,288,197

### 15. Net settlement of crop interests

Net settlements of crop interests are the result of crop tonnage obligations outstanding on crop streaming contracts being settled by the farm operator directly through payment in cash, through cash proceeds received from crop insurance, through a conventional mortgage receivable with the Company, through a receivable agreement with the Company, or through an asset transfer to the Company. These transactions are considered to be the settlement of a financial asset with the farm operator. These transactions are recorded as a gain or loss from settlements of crop interests on the statement of net income (loss) as outline below:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Total cash proceeds received for settlement of current crop interests	\$ 330,477	\$ 2,424,884
Amounts applied to the realization of crop interests		
Upfront payments	139,082	1,518,582
Crop payments	100,193	538,896
Realized market value expense	(926)	(17,056)
Other direct expenses	1,022	1,293
Net settlement of current crop interests	\$ 91,106	\$ 383,169
Gain on buy-back of non-current crop interests	11,380	55,400
Realized market value loss on buyouts	(5,445)	(17,500)
Gain from settlements of crop interests	\$ 97,041	\$ 421,069

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### 16. Corporate administration

The corporate administration expenses of the Company are as follows:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Advertising and client development	\$ 107,523	\$ 137,799
Amortization of capital and intangible assets	11,939	11,736
Board and executive expenses (Note 21)	26,216	63,969
Contractors, employee salaries and benefits	997,064	907,541
Investor relations and public company costs	84,695	54,070
Licenses, dues and filing fees	55,968	80,630
Mortgage administration and commissions	26,764	-
Office expenses	141,808	110,865
Professional fees – legal, accounting, tax and collection	207,782	330,030
Share option based compensation (Note 13C)	167,736	163,693
<b>Total corporate administration expense</b>	<b>\$ 1,827,495</b>	<b>\$ 1,860,333</b>

### 17. Income taxes

The income tax expense differs from the amounts that would result from applying the federal and provincial income tax rate to the net loss before income taxes. These differences result from the following items:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Net income (loss) before income tax	\$ (909,972)	\$ 850,380
Canadian federal and provincial tax rates	27.0%	26.5%
Income tax expense (recovery) based on the above rates	(245,692)	225,350
Increase (decrease) due to the tax effect of:		
Non-deductible stock compensation	45,289	43,379
Tax effect related to change in tax rate	(19,568)	-
Other	19,560	-
<b>Income tax expense (recovery)</b>	<b>\$ (200,411)</b>	<b>\$ 268,729</b>

The income tax expense (recovery) consists of the following:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Current	\$ 271,294	\$ 582,936
Deferred	(471,705)	(314,207)
	<b>\$ (200,411)</b>	<b>\$ 268,729</b>

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The components of deferred income taxes recognized on the statement of financial position are as follows:

	December 31, 2018	September 30, 2018
Deferred income tax assets		
Share issuance costs	\$ 36,794	\$ 74,406
DSU compensation	174,098	180,767
Capital and intangible assets	(24,024)	(27,248)
Market value adjustment	3,877,173	3,364,410
Total deferred income tax assets	\$ 4,064,041	\$ 3,592,335

### 18. Supplemental cash flow information

	Three months ended December 31, 2018	Three months ended December 31, 2017
Change in non-cash working capital items		
Trade and other receivables	\$ (518,078)	\$ 3,816,261
Income tax recoverable	-	-
Prepaid expenses	223,450	66,463
Trade and other payables	1,539,925	2,207,554
Income tax payable	51,434	207,937
Net increase in cash	\$ 1,296,731	\$ 6,298,215

### 19. Key management personnel compensation

Members of the key management team include the President and Chief Executive Officer, the Executive Vice-President and Chief Financial Officer, and the Vice-President of Market Development.

	Three months ended December 31, 2018	Three months ended December 31, 2017
Contractors, employee salaries and benefits	\$ 439,225	\$ 176,313
Share based payments	132,905	130,535
Total key management compensation expense	\$ 572,130	\$ 306,848

### 20. Board compensation

The Company has a Deferred Share Unit Plan (the "DSU Plan") whereby the Company grants deferred share units ("DSUs") to eligible directors. Each eligible director is given the opportunity to elect, in lieu of cash, to receive all, or a portion of, their annual board retainer or board meeting fees in the form of DSUs. The DSUs are cash-settled payment transactions and are valued at the fair value of the rights based on the closing stock price at the end of the reporting period. At December 31, 2018 there were 754,735 DSUs granted, vested and outstanding (September 30, 2018 - 673,764). Included in Trade and other payables at December 31, 2018 is \$641,524 (September 30, 2018 - \$673,764) relating to the valuation of the DSUs. Included in Board and executive expenses (gain) under corporate administration expense for the three months December 31, 2018 is a gain of \$24,699 (three months ended December 31, 2017 - expense of \$52,324) relating to the valuation of the DSUs.

## NOTES TO THE FINANCIAL STATEMENTS

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### 21. Related party transactions

The Company is related to Emsley & Associates (2002) Inc. as a result of common management. The companies share some common personnel and Input leases furnished office space from Emsley & Associates Inc. (see Note 22). These transactions are in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party expenses are summarized in the following table:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Corporate administration	\$ 290,383	\$ 181,360

Included in Corporate administration (Note 16) is \$162,975 for the three months ended December 31, 2018 (three months ended December 31, 2017 - \$62,500), relating to key management compensation and is included in contractors, employee salaries and benefits.

Included in Trade and other payables is \$128,665 (September 30, 2018 - \$193,671) payable to related parties.

### 22. Commitments and Contingencies

Lawsuits and claims that have arisen in the normal course of business are pending for and against the Company and provisions have been recorded where appropriate. It is the opinion of management that the final determination of these claims will not have a material adverse effect on the financial position or the results of the Company.

In August 2016, the Company signed a five-year lease that commenced September 1, 2016, ending February 28, 2021 with Emsley & Associates (2002) Inc. The Company's annual fiscal commitments remaining under the lease are as follows:

Commitments and contingencies		
2019		\$ 216,805
2020		300,683
2021		127,820
		\$ 645,308