

Farmers Edge Inc.
Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three and nine month periods ended September 30, 2020 and 2019

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FARMERS EDGE INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(unaudited, expressed in Canadian dollars)

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	6,461,819	4,775,094
Accounts receivable (note 4)	16,067,757	18,697,343
Prepaid expenses and other current assets	1,806,919	2,553,847
	24,336,495	26,026,284
Property and equipment	33,115,764	31,269,122
Intangible assets	21,626,378	19,081,738
Goodwill	1,114,961	1,114,961
	55,857,103	51,465,821
Total assets	80,193,598	77,492,105
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	36,326,828	30,566,897
Deferred revenue (note 3)	6,636,125	9,310,201
Current portion of right-of-use obligation	2,249,079	2,533,516
Current portion of long-term debt (note 12)	3,000,000	3,000,000
Current portion of convertible debentures and accrued interest (note 5)	302,060,818	238,548,294
	350,272,850	283,958,908
Right-of-use obligation	4,301,572	3,908,332
Long-term debt (note 6)	500,000	—
	4,801,572	3,908,332
Total liabilities	355,074,422	287,867,240
Shareholders' deficiency		
Share capital (note 7)	124,835,105	124,757,924
Equity component of debentures	27,987,404	24,342,728
Contributed surplus	5,114,395	4,519,109
Accumulated other comprehensive loss	(1,825,419)	(557,893)
Deficit	(430,992,309)	(363,437,003)
Total shareholders' deficiency	(274,880,824)	(210,375,135)
Total liabilities and shareholders' deficiency	80,193,598	77,492,105
Going concern (note 2)		
Commitments and contingencies (note 13)		
Subsequent events (note 14)		

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited, expressed in Canadian dollars, except for per share information)

<u>For the periods ended September 30</u>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Revenues (note 3)	10,333,517	5,349,521	26,760,141	17,105,905
Operating expense				
Cost of revenue (excluding depreciation, amortization and data and technology infrastructure expenses) . .	7,352,403	8,077,872	23,702,789	22,504,613
Data and technology infrastructure expenses	7,484,218	7,250,641	22,269,554	22,509,035
Selling and marketing expenses	3,022,095	3,962,399	9,448,638	12,873,922
Product research and development expenses	1,068,572	1,931,075	3,672,532	5,990,001
General and administrative expenses	3,596,360	3,407,874	10,040,744	9,684,166
Operating loss before foreign exchange, depreciation and amortization (note 2c)	(12,190,131)	(19,280,340)	(42,374,116)	(56,455,832)
Foreign exchange loss (gain)	193,238	269,566	553,104	(740,018)
Depreciation of property and equipment	2,590,653	2,369,061	7,239,785	6,417,415
Amortization of intangible assets	2,051,217	1,535,864	5,487,274	4,048,842
Operating loss	(17,025,239)	(23,454,831)	(55,654,279)	(66,182,071)
Finance costs	9,502,199	9,496,454	25,190,013	18,915,790
Other income and expenses (note 11)	(6,670,153)	93,377	(13,288,986)	(1,241,612)
Net loss	(19,857,285)	(33,044,662)	(67,555,306)	(83,856,249)
Other comprehensive loss				
Items that are or may be reclassified to profit or loss				
Foreign currency translation loss of foreign operations, net of tax (nil)	(417,285)	(151,078)	(1,267,526)	(618,447)
Total comprehensive loss	(20,274,570)	(33,195,740)	(68,822,832)	(84,474,696)
Loss per share — basic and diluted (note 7)	(0.29)	(0.48)	(0.98)	(1.22)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FARMERS EDGE INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, expressed in Canadian dollars)

For the periods ended September 30	Three months ended		Nine months ended	
	2020	2019	2020	2019
Operating activities				
Net loss for the period	(19,857,285)	(33,044,662)	(67,555,306)	(83,856,249)
Items not affecting cash and cash equivalents:				
Depreciation of property and equipment	2,590,653	2,369,061	7,239,785	6,417,415
Amortization of intangible assets	2,051,217	1,535,864	5,487,274	4,048,842
Amortization of deferred financing costs	—	50,793	—	50,793
Accretion in convertible debentures	562,317	3,924,986	1,910,720	4,919,404
Accrued interest on convertible debentures	8,764,291	5,240,934	22,746,479	13,045,486
Unrealized foreign exchange (gain) loss	(75,785)	(953,552)	173,331	943
Gain on disposal of property and equipment	(39,454)	(7,027)	(97,486)	(82,796)
Stock-based compensation	226,800	405,230	619,482	851,252
	(5,777,246)	(20,478,373)	(29,475,721)	(54,604,910)
Changes in operating assets and liabilities:				
Accounts receivable	(550,101)	2,200,251	2,629,586	(425,941)
Prepaid expenses and other current assets	(117,588)	311,157	852,331	(1,379,264)
Accounts payable and accrued liabilities	2,350,293	1,313,783	5,759,931	173,652
Deferred revenue	(5,181,427)	(1,195,857)	(2,674,076)	17,641
Deferred government grant	—	—	—	(636,455)
Net cash used in operating activities	(9,276,069)	(17,849,039)	(22,907,949)	(56,855,277)
Investing activities				
Additions to property and equipment	(2,431,123)	(3,983,354)	(8,043,724)	(7,546,090)
Additions to intangible assets	(2,727,757)	(2,783,610)	(8,104,038)	(7,864,052)
Proceeds from disposal of property and equipment . .	39,454	(23,804)	137,359	81,401
Net cash used in investing activities	(5,119,426)	(6,790,768)	(16,010,403)	(15,328,741)
Financing activities				
Repayment of right-of-use obligation	(792,577)	(805,817)	(2,285,028)	(2,352,406)
Proceeds from long-term debt	500,000	—	500,000	—
Issuance of convertible debentures	18,000,000	23,000,000	42,500,000	72,000,000
Issuance of common shares, net of issuance costs . .	52,985	—	52,985	174,900
Net cash provided from financing activities	17,760,408	22,194,183	40,767,957	69,822,494
Effect of foreign exchange rate on cash	(30,014)	(184,397)	(162,880)	91,938
Net increase (decrease) in cash during the period . .	3,334,899	(2,630,021)	1,686,725	(2,269,586)
Cash — Beginning of period	3,126,920	8,949,078	4,775,094	8,588,643
Cash — End of period	6,461,819	6,319,057	6,461,819	6,319,057
Interest paid	74,128	161,982	245,328	760,831
Income taxes paid	—	—	—	—

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FARMERS EDGE INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'
DEFICIENCY

(unaudited, expressed in Canadian dollars)

	Common share capital	Equity component of debentures	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' deficit
Balance as at December 31,						
2018	124,422,757	13,749,279	3,749,868	154,947	(245,476,811)	(103,399,960)
Total comprehensive loss	—	—	—	(618,447)	(83,856,249)	(84,474,696)
Exercise of stock options	279,257	—	(285,809)	—	—	(6,552)
Stock-based compensation	—	—	851,252	—	—	851,252
Issuance of convertible debentures	—	9,961,241	—	—	—	9,961,241
Balance as at September 30,						
2019	<u>124,702,014</u>	<u>23,710,520</u>	<u>4,315,311</u>	<u>(463,500)</u>	<u>(329,333,060)</u>	<u>(177,068,715)</u>
Balance as at December 31,						
2019	124,757,924	24,342,728	4,519,109	(557,893)	(363,437,003)	(210,375,135)
Total comprehensive loss	—	—	—	(1,267,526)	(67,555,306)	(68,822,832)
Exercise of stock options	77,181	—	(24,196)	—	—	52,985
Stock-based compensation	—	—	619,482	—	—	619,482
Issuance of convertible debentures	—	3,644,676	—	—	—	3,644,676
Balance as at September 30,						
2020	<u>124,835,105</u>	<u>27,987,404</u>	<u>5,114,395</u>	<u>(1,825,419)</u>	<u>(430,992,309)</u>	<u>(274,880,824)</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FARMERS EDGE INC.
CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)

1. CORPORATE INFORMATION

Farmers Edge Inc. (“the Company”) was formed on August 21, 2014 under the Manitoba Corporations Act. The Company’s registered offices are located at 242 Hargrave Street, Suite 1700, Winnipeg, Manitoba, Canada. The Company provides advanced digital tools to growers and other key participants in the agricultural value chain. The Company’s technology platform integrates remote imagery from satellites with other data sources including equipment and field sensors, on-farm weather stations, and detailed soils data to provide growers with specific decision tools and insights on their fields.

The ultimate controlling party of the Company is Fairfax Financial Holdings Limited (together with certain subsidiaries, the “Fairfax Shareholders”).

The Company’s interim results are impacted by seasonality factors that generally affect the agriculture industry. In North America, harvest traditionally occurs in the last four months of the calendar year and planting typically occurs in the second quarter of the calendar year. Certain subscriptions have revenues recognized in line with those seasonal services when the service is provided but most are recognized evenly over the life of the contract and over the reporting period. The Company generally experiences increased seasonal labour costs shortly after harvest is completed. The Company issues to its customers sales invoices semi-annually or annually in advance, in April and October each year for its Digital Ag Solution and similarly Fertility Solution subscription invoices are issued in either August or December.

2. BASIS OF PRESENTATION

a) Going concern

The accompanying condensed interim financial statements have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future. There is significant doubt about the appropriateness of the going concern assumption and ultimately the use of accounting principles applicable to a going concern because of the material uncertainties caused by successive years of operating losses and the maturity of the convertible debentures in 2021.

The Company’s convertible debentures (note 5) and \$3 million long-term debt (note 12) have a maturity date of June 30, 2021 and are accordingly classified as current liabilities in the Company’s September 30, 2020 financial statements. Since the beginning of 2017, the Company has funded its operations primarily through capital raises aggregating \$296.0 million, mainly through issuing convertible debentures to shareholders. The Company’s approach to managing liquidity is to ensure that it has sufficient liquidity to meet its liabilities as they come due. The Company consistently monitors its cash flow position and manages expenditures to its annual budgets.

As part of its business plan, the Company expects to incur an operating cash flow deficiency in fiscal 2021 and potentially beyond. As a result, the Company will need additional capital resources in fiscal 2021. In January 2021, the Company obtained an \$11 million debenture from a shareholder that provides financing for a portion of the estimated operational cash flow requirements for 2021 (note 14). Management’s plan to obtain additional capital resources includes obtaining funding from outside sources through the sale of its equity securities through an initial public offering (“IPO”). Alternatively, the Company would attempt to renegotiate the terms of the existing convertible debentures and obtain additional financing from current shareholders or third parties to meet its liquidity requirements.

The terms of the convertible debentures require the holders of the equity conversion option to exercise the conversion feature at the time of an IPO. As a result, the convertible debentures and related accrued interest would be converted into common shares of the Company immediately preceding the closing of the IPO. As well, management expects the net proceeds from a successful IPO to be sufficient to fund their operations for the foreseeable future (note 14).

The success of management’s planned initiatives and actions referred to above cannot be assured and may be subject to material change or revision at any time. If the going concern basis was not appropriate for these condensed interim consolidated financial statements, then adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses, and the balance sheet classifications used. Such adjustments could be material.

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)**

2. BASIS OF PRESENTATION (Continued)

b) Subsidiaries

These consolidated financial statements include the accounts of the Company and all of its subsidiaries as follows:

	<u>Country of Incorporation</u>	<u>Ownership interest (directly and indirectly)</u>
Farmers Edge (US), Inc.	United States	100%
DigiAg Risk Management (US), LLC	United States	100%
DigiAg Risk Management Inc.	Canada	100%
7050160 Manitoba Inc.	Canada	100%
Farmers Edge (Brasil) Consultoria Em Atividades Agricolas Ltda.	Brazil	100%
Farmers Edge Australia PTY Ltd.	Australia	100%
Farmers Edge LLC	Russia	100%
Farmers Edge Ukraine LLC	Ukraine	100%

c) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

These interim condensed consolidated interim financial statements follow the same significant accounting policies as described and used in the Company’s audited consolidated financial statements for the year ended December 31, 2019 and should be read in conjunction with these statements.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on February 24, 2021.

d) Use of estimates and judgments

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim condensed consolidated interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2019.

e) Operating loss before foreign exchange, depreciation and amortization

The Company presents, as an additional IFRS measure, operating loss before foreign exchange, depreciation and amortization, in the consolidated statement of operations to assist users in assessing financial performance. The Company’s management and the Board use this measure to evaluate consolidated operating results. In addition, this measure is used to make operating decisions as it is an indicator of the performance of the business and how much cash is being used by the Company and assists in determining resource allocation decisions. Operating loss before foreign exchange, depreciation and amortization is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

f) COVID-19

In March 2020, financial markets were negatively impacted by a novel strain of coronavirus (COVID-19), which was declared a pandemic by the World Health Organization (WHO). As a company supporting the agriculture industry, the Company is considered an essential business and is working to maintain normal business activities by having field and lab staff practice responsible social distancing and other safety measures, and requiring many non-field personnel to work from home. To date, the Company has not experienced any material disruption to the business, but the eventual impact to the business cannot be reliably measured given the uncertainty on the continued spread of the coronavirus and the government or other measures that may have to be implemented to limit its spread. The Company has been approved for various government subsidies and financial assistance of approximately \$5,900,000, as a

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)**

2. BASIS OF PRESENTATION (Continued)

means to mitigate any coronavirus related business disruptions. The Company has satisfied the conditions of the government programs and approximately \$2,155,000 was received prior to June 30, 2020 and the rest was received in July 2020.

3. REVENUE AND DEFERRED REVENUE

The disaggregation of the Company's revenue from contracts with customers was as follows:

<u>For the periods ended September 30</u>	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Digital Ag and Fertility solutions subscriptions	8,704,085	5,194,120	23,853,812	15,505,978
Commercial contract revenue	785,084	—	785,084	1,145,554
Business analytics solutions (note 12)	624,348	—	1,548,804	—
Other (agronomic consulting and service)	220,000	155,401	572,441	454,373
Total revenue	<u>10,333,517</u>	<u>5,349,521</u>	<u>26,760,141</u>	<u>17,105,905</u>

The Company discloses revenue by geographic area in note 10.

Deferred revenue

Digital Ag and Fertility solutions subscriptions, commercial contracts and business analytics solutions are initially recorded as deferred revenue and then recognized as revenue as the services are performed.

	<u>9-months ended September 30, 2020</u>	<u>9-months ended September 30, 2019</u>
Balance, beginning of the period	9,310,201	4,174,803
Deferral of revenue	23,513,624	16,669,173
Recognition of deferred revenue	<u>(26,187,700)</u>	<u>(16,651,532)</u>
Balance, end of period	<u>6,636,125</u>	<u>4,192,444</u>

4. ACCOUNTS RECEIVABLE

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Trade accounts receivable, net of allowance for doubtful accounts . .	7,460,911	15,221,781
Accrued receivable	6,906,077	2,732,925
Other receivable	<u>1,700,769</u>	<u>742,637</u>
	<u>16,067,757</u>	<u>18,697,343</u>

The Company's accrued receivable relates to services rendered during the period that were not invoiced and amounts receivable for commercial contract revenue.

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)**

5. CONVERTIBLE DEBENTURES

<u>Date issued</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Convertible debentures, beginning of period	215,736,106	119,236,106
Issued during the period	42,500,000	96,500,000
Face value	258,236,106	215,736,106
Less: equity portion of debentures	(27,987,404)	(24,342,728)
Add: accretion in carrying value	25,427,138	23,516,418
Accrued interest not currently payable	46,384,978	23,638,498
	<u>302,060,818</u>	<u>238,548,294</u>
Less: current portion of debentures	(302,060,818)	(238,548,294)
Long-term portion of debentures	<u>—</u>	<u>—</u>

In January 2020, the Company was advanced another \$6,000,000 under a convertible debenture bearing interest at 10% per annum, compounded daily. Between February and March 2020, the Company also then issued a series of convertible debentures totaling \$8,500,000, due on demand, with interest at 12% per annum compounded daily. These debentures all include an equity conversion option, whereby on or before maturity, the holder will have the option to convert all or part of the unpaid principal amount and the accrued interest at a conversion price of \$2.40 per common share on a pre-share consolidation basis.

In April 2020, a shareholder of the Company committed to support the Company with up to an additional \$34,000,000 in a new debenture bearing interest at a rate of 12% per annum compounded daily. The new debenture includes an equity conversion option with terms consistent with the existing debentures. A total of \$28,000,000 was received by the Company during April to September 30, 2020 relating to this new debenture.

In June 2020, the Company renegotiated all its outstanding debentures and long-term debt, resulting in the maturity dates being extended to June 30, 2021 and all debentures previously bearing a 10% interest rate now bearing an interest rate of 12% per annum compounded daily. As well, all of these debentures include an equity conversion option, whereby the holder will have the option to convert all or part of the unpaid principal amount and the accrued interest at a conversion price of \$2.40 per common share on a pre-share consolidation basis. However, if the Company is successful in issuing a public offering, the holders of the equity conversion option would be required to exercise the conversion feature at that time.

The terms of the Company's convertible debentures currently have a maturity date of June 30, 2021. The terms of the convertible debentures require the holders of the equity conversion option to exercise the conversion feature at the time of an initial public offering. As a result, the convertible debentures and related accrued interest would be converted into common shares of the Company as part of an initial public offering. In the absence of an initial public offering by the Company, the Company expects to renegotiate the terms of the convertible debentures with the debenture holders who are also shareholders of the Company to ensure the Company's ability as a going concern (note 14).

The Company has pledged all of its assets as collateral through a general security agreement related to all debentures and accrued interest outstanding.

Subsequent to September 30, 2020, the conversion price for all convertible debentures were amended (note 14).

6. LONG TERM DEBT

On July 29, 2020, the Company received loan proceeds of \$500,000 from the Government of Canada's department of Western Economic Diversification Canada. The loan is repayable in monthly instalment payments of \$27,800 commencing January 31, 2023 and ending December 31, 2025 ("maturity date"). No interest will be charged if the loan is repaid by the maturity date. The Company received additional loan proceeds under the same loan agreement subsequent to September 30, 2020 (note 14).

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)**

7. SHARE CAPITAL

The Company has unlimited authorized share capital without par value. Common shares rank equally with regard to the Company's residual assets and are entitled to one vote per share at general meetings of the Company.

	Common shares	
	Number of shares	(\$)
As at December 31, 2018	68,675,225	124,422,757
Exercise of options	366,000	335,167
As at December 31, 2019	69,041,225	124,757,924
Exercise of options	100,000	77,181
As at September 30, 2020	69,141,225	124,835,105

Stock option issuance

During August 2020, the Company granted 440,000 options to purchase common shares of the Company at an exercise price of \$1.25 per common share. The options vest over a four-year period, with the first 25% of the shares vesting following 12 months of continuous employment or service to the Company, with the remaining shares vesting in equal monthly instalments over the following 36 months.

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility for a market index of listed companies with similar characteristics. The inputs used in the measurement of the fair values of the stock options granted are as follows:

Number of options granted	440,000
Weighted average share price (\$)	1.25
Average term to exercise (years)	4
Share price volatility (%)	61%
Risk-free interest rate (%)	0.34%

On October 16, 2020, common shares were issued pursuant to the exercise of certain warrants (note 14).

8. LOSS PER SHARE

The Company has two categories of dilutive potential common shares: stock options and equity conversion options and warrants related to the debentures. As at September 30, 2020, there are 160,554,295 of potential dilutive common shares; 5,880,592 related to stock options, 27,746,874 related to warrants and 126,926,828 related to the equity conversion option of the convertible debentures.

On October 16, 2020, common shares were issued pursuant to the exercise of certain warrants (note 14).

Diluted loss per share excludes all dilutive potential shares if their effect is anti-dilutive. As a result of net losses incurred, all potentially dilutive securities have been excluded from the calculation of diluted loss per share because including them would be anti-dilutive.

Basic and diluted loss per share are as follows for the period ended September 30:

<u>For the periods ended September 30</u>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Net loss	(19,857,285)	(33,044,662)	(67,555,306)	(83,856,249)
Weighted average number of common shares outstanding — basic and diluted	69,141,225	69,005,225	69,074,681	68,979,840
Loss per share — basic and diluted	(0.29)	(0.48)	(0.98)	(1.22)

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)

9. FINANCIAL INSTRUMENTS

Fair value

The Company measures the fair value of its financial assets and financial liabilities using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value.

The different levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
and

Level 3: Unobservable inputs for the asset or liability.

The Company estimated the fair value of its financial instruments as described below.

The fair value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt are considered to be equal to their respective carrying values due to their short-term maturities.

Fair value of the debentures are valued using level 3 inputs, based on the present value of estimated cash flows. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Company's specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions and other indicators of the Company's credit worthiness. The carrying amount of the debentures is a reasonable approximation of their fair value. During the period there were no transfers of financial instruments between the levels within the fair value hierarchy.

Capital risk management objectives and policies

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objective of the Company's risk management process is to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The Company is subject to certain negative covenants that limit the extent of additional financing without prior approval from certain of its existing lenders. The Company capital structure consists of cash, long-term debt, convertible debentures and shareholders' deficiency. The Company manages capital to ensure an appropriate balance between debt and equity.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its bank indebtedness, accounts payable and accrued liabilities, long-term debt, debentures and lease obligations. The Company manages its liquidity risk by forecasting cash flows from operations and seeking additional financing for growth and operations.

In January 2021, the Company entered into a short-term debenture financing agreement with a shareholder which provides the Company with up to \$11,000,000 of financing to cover a portion of the estimated operational cash flow requirements for 2021 (note 14). Management's plan to obtain capital resources includes obtaining funding from outside sources through the sale of its equity securities through an initial public offering (note 14). Alternatively, the Company may renegotiate the terms of the existing convertible debentures and obtain additional capital from current shareholders to meet its liquidity requirements.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main credit risk relates to its accounts receivable. The Company provides credit to its customers in the normal course of its operations.

The Company maintains a provision for doubtful accounts receivable. The Company estimates expected losses from doubtful accounts based upon the collectability of all accounts receivable, which considers the number of days past due, collection history, identification of specific customer exposure, and current economic trends.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security.

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)**

9. FINANCIAL INSTRUMENTS (Continued)

The loss allowance as at September 30, 2020 was determined as follows for trade receivables:

	<u><90 days</u>	<u>91 - 365 days</u>	<u>>365 days</u>	<u>Total</u>
Expected loss rate	4%	11%	100%	
Gross carrying value of trade receivables	5,355,973	2,585,055	1,285,588	9,226,616

Credit risk with respect to cash and cash equivalents is managed by maintaining balances only with high credit quality financial institutions.

Foreign currency risk

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognized in foreign exchange gain (loss).

Fluctuations in the exchange rate between the Canadian dollar (“CAD”) and United States dollar (“USD”) affect the Company’s reported results.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s borrowings are at fixed rates which minimizes interest rate cash flow risk exposures on financing. The exposure to interest rates for the Company’s short-term deposits are considered immaterial.

10. GEOGRAPHIC INFORMATION

The geographic segmentation of the Company’s assets are as follows:

	<u>September 30, 2020</u>		
	<u>Property and equipment</u>	<u>Intangible assets</u>	<u>Goodwill</u>
Canada	16,899,679	19,418,896	1,114,961
United States	11,587,416	1,999,403	—
Brazil	3,518,323	208,079	—
Australia	750,523	—	—
Russia and Ukraine	359,823	—	—
	<u>33,115,764</u>	<u>21,626,378</u>	<u>1,114,961</u>

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)**

10. GEOGRAPHIC INFORMATION (Continued)

	December 31, 2019		
	Property and equipment	Intangible assets	Goodwill
Canada	13,437,299	17,737,471	1,114,961
United States	11,464,122	1,075,049	—
Brazil	5,492,616	269,218	—
Australia	600,330	—	—
Russia and Ukraine	274,755	—	—
	31,269,122	19,081,738	1,114,961

Geographic revenue based on the allocation of customer and commercial partner contracts are detailed as follows:

<u>For the periods ended September 30</u>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Canada	6,662,751	3,263,123	14,300,728	10,428,461
United States	2,130,461	1,306,168	8,063,465	4,801,455
Brazil	1,132,281	517,514	2,990,058	1,381,079
Australia	110,523	204,186	721,009	420,950
Russia and Ukraine	297,501	58,530	684,881	73,960
Total revenue	10,333,517	5,349,521	26,760,141	17,105,905

11. OTHER INCOME AND EXPENSES

<u>For the periods ended September 30</u>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Government subsidies and financial assistance	6,622,501	—	12,874,469	1,173,483
Gain on disposal of property and equipment	39,454	7,027	97,486	82,796
Other gain (loss)	8,198	(100,404)	317,031	(14,667)
Total other income	6,670,153	(93,377)	13,288,986	1,241,612

Other income includes investment tax credits plus a number of new innovation grants that the Company was awarded in late 2019 and early 2020, some of which are coming from North American government bodies with funding associated with COVID-19.

12. RELATED PARTY TRANSACTIONS

The Fairfax Shareholders who account for \$219,236,106 (December 2019 — \$176,736,106) of the total outstanding debentures have been deemed to have control over the Company. Interest expense for the nine months ended September 30, 2020 was \$19,377,093 (2019 — \$9,745,668) related to the outstanding debentures issued to this shareholder.

As well, the Fairfax Shareholders assumed the outstanding \$3,000,000 long-term debt from the original lender in 2020 and extended the maturity date to June 30, 2021. Accrued interest expense of \$270,246 has been recorded for the nine months ended September 30, 2020.

Revenue was recognized for the nine months ended September 30, 2020 of \$1,372,039 (September 30, 2019 — nil) related to business analytics solutions provided to an affiliate of the Fairfax Shareholders.

FARMERS EDGE INC.

CONDENSED INTERIM CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the periods ended September 30, 2020
(unaudited, in Canadian dollars except as otherwise indicated)

13. COMMITMENTS AND CONTINGENCIES

The Company is defending various legal claims, including a patent infringement claim and breach of contract counterclaim, filed against the Company. The Company believes that it has a meritorious defense with respect to the patent infringement claim and breach of contract counterclaim and is vigorously pursuing such defense.

Litigation outcomes are inherently unpredictable, and it is therefore not possible at this time to predict with certainty the outcome of the proceedings described above. No provisions have been recorded in the financial statements relating to these claims.

14. SUBSEQUENT EVENTS

The Company was advanced an additional \$6,000,000 of convertible debentures during October and November 2020 pursuant to the April 2020 convertible debenture by Fairfax Shareholders (note 5).

On October 16, 2020, the Company issued 9,538,490 common shares as a result of certain outstanding warrants being exercised at an exercise price of \$0.0001 per common share (note 7 and 8).

On November 2, 2020, an additional \$500,000 of loan proceeds were received from Western Economic Diversification Canada (note 6). The Company has now received the maximum loan amount of \$1,000,000.

Subsequent to September 30, 2020, the conversion price for all convertible debentures were amended to the lower of the conversion Price of \$2.40 per common share and the IPO price per common share on a pre-share consolidation basis (note 5).

On January 5, 2021, the Company entered into a short-term debenture financing agreement with the Fairfax Shareholders which provides the Company with up to \$11,000,000 of financing to cover estimated operational cash flow requirements for the first quarter of 2021 and \$5,000,000 was drawn from this debenture in January 2021 and \$6,000,000 was drawn from this debenture in February 2021. This debenture bears an 8% interest rate per annum.

The Company had a \$900,000 demand facility for the funding of its corporate credit card program, secured by a \$1,000,000 pledge of the Company's cash deposits. In January 2021, the Company decreased the size of the demand facility to \$650,000 and the size of the pledge to \$400,000.

On February 24, 2021, the Company filed a final prospectus with the securities regulatory authorities in each of the provinces and territories of Canada in connection with an IPO of common shares of the Company for gross proceeds of \$125,001,000. The IPO will consist of an offering of common shares issued from treasury payable on closing of the IPO and subject to the terms and conditions of an underwriting agreement to be entered into between the Company and the underwriters in connection with the IPO. Following receipt of shareholder approval at a special meeting to be held on or about March 2, 2021, the Company will file articles of amendment prior to Closing to, among other things, consolidate the common shares on an anticipated 7:1 basis. In addition, concurrently with Closing, the convertible debentures will be converted into common shares, the Company will repay the unpaid principal and accrued unpaid interest on the long-term loan (note 6) and the short-term debenture financing and the Fairfax Shareholders will exercise all of the outstanding warrants held by the Fairfax Shareholders for common shares.