

Consolidated Financial Statements of

ROGERS SUGAR INC.

Fiscal years ended October 3, 2020 and September 28, 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rogers Sugar Inc.

Opinion

We have audited the consolidated financial statements of Rogers Sugar Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at October 3, 2020 and September 28, 2019,
- the consolidated statements of earnings (loss) and comprehensive income (loss) for fiscal years ended October 3, 2020 and September 28, 2019,
- the consolidated statements of changes in shareholders' equity for fiscal years ended October 3, 2020 and September 28, 2019,
- the consolidated statements of cash flows for fiscal years ended October 3, 2020 and September 28, 2019,
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at October 3, 2020 and September 28, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Change in Accounting Policy

We draw attention to Note 3 (h) to the financial statements which indicates that the Entity has changed its accounting policy for leases as of September 29, 2019, due to the adoption of IFRS 16, Leases, and has applied that change using a modified retrospective transition approach.

Our opinion is not modified in this respect.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.



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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

The engagement partner on the audit resulting in this auditors' report is Aaron Fima.

Montréal, Canada

November 25, 2020

ROGERS SUGAR INC.

Consolidated statements of financial position
(In thousands of dollars)

	October 3, 2020	September 28, 2019
Assets		
Current assets:		
Cash	\$ 1,974	\$ 284
Trade and other receivables (note 7)	94,262	85,823
Income taxes receivable	2,042	1,977
Inventories (note 8)	180,792	182,359
Prepaid expenses	7,923	4,162
Derivative financial instruments (note 9)	2,616	931
Total current assets	289,609	275,536
Non-current assets:		
Property, plant and equipment (note 10)	230,385	220,408
Right-of-use assets (note 3 and 11)	20,489	-
Intangible assets (note 12)	31,666	35,444
Other assets (note 13)	745	928
Deferred tax assets (note 14)	31,085	19,684
Derivative financial instruments (note 9)	158	21
Goodwill (Note 15)	283,007	283,007
Total non-current assets	597,535	559,492
Total assets	\$ 887,144	\$ 835,028
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank overdraft	\$ 2,797	\$ 8,325
Revolving credit facility (note 16)	29,000	17,000
Trade and other payables (note 17)	131,089	117,735
Provisions (note 18)	500	878
Lease obligations (note 3 and 19)	3,981	139
Derivative financial instruments (note 9)	1,458	615
Total current liabilities	168,825	144,692
Non-current liabilities:		
Revolving credit facility (note 16)	165,000	160,000
Employee benefits (note 20)	59,212	51,810
Provisions (note 18)	437	819
Derivative financial instruments (note 9)	6,933	4,677
Lease obligations (note 3 and 19)	16,423	742
Convertible unsecured subordinated debentures (note 21)	145,836	144,230
Deferred tax liabilities (note 14)	54,287	42,626
Total non-current liabilities	448,128	404,904
Total liabilities	616,953	549,596
Shareholders' equity:		
Share capital (note 22)	99,452	100,522
Contributed surplus	300,794	300,626
Equity portion of convertible unsecured subordinated debentures (note 21)	5,085	5,085
Deficit	(116,831)	(109,654)
Accumulated other comprehensive loss	(18,309)	(11,147)
Total shareholders' equity	270,191	285,432
Commitments (notes 19 and 24)		
Contingencies (note 25)		
Total liabilities and shareholders' equity	\$ 887,144	\$ 835,028

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

ROGERS SUGAR INC.

Consolidated statements of changes in shareholders' equity
(In thousands of dollars except number of shares)

	For the fiscal year ended October 3, 2020								
	Number of shares	Common shares	Contributed surplus	Equity portion of convertible debentures	Accumulated unrealized gain (loss) on employee benefit plans	Accumulated cash flow hedge gain	Accumulated foreign currency translation differences	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Balance, September 28, 2019	104,885,464	100,522	300,626	5,085	(8,638)	(3,248)	739	(109,654)	285,432
Net earnings for the year	-	-	-	-	-	-	-	35,419	35,419
Dividends (note 22)	-	-	-	-	-	-	-	(37,380)	(37,380)
Purchase and cancellation of shares (note 22)	(1,377,394)	(1,320)	-	-	-	-	-	(5,216)	(6,536)
Share-based compensation (note 23)	-	-	168	-	-	-	-	-	168
Conversion of convertible debentures into common shares (notes 21 and 22)	28,853	250	-	-	-	-	-	-	250
Cash flow hedges, net of tax (note 9)	-	-	-	-	-	(2,871)	-	-	(2,871)
Defined benefit actuarial losses, net of tax (note 20)	-	-	-	-	(4,345)	-	-	-	(4,345)
Translation of foreign operations	-	-	-	-	-	-	54	-	54
Balance, October 3, 2020	103,536,923	99,452	300,794	5,085	(12,983)	(6,119)	793	(116,831)	270,191

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

ROGERS SUGAR INC.

Consolidated statements of changes in shareholders' equity (continued)
(In thousands of dollars except number of shares)

For the fiscal year ended September 28, 2019

	Number of shares	Common shares	Contributed surplus	Equity portion of convertible debentures	Accumulated unrealized loss on employee benefit plans	Accumulated cash flow hedge gain	Accumulated foreign currency translation differences	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Balance, September 29, 2018	105,008,070	100,639	300,436	5,085	6,070	272	314	(63,171)	349,645
Net loss for the year	-	-	-	-	-	-	-	(8,167)	(8,167)
Dividends (note 22)	-	-	-	-	-	-	-	(37,793)	(37,793)
Purchase and cancellation of shares (note 22)	(122,606)	(117)	-	-	-	-	-	(523)	(640)
Share-based compensation (note 23)	-	-	190	-	-	-	-	-	190
Cash flow hedges, net of tax (note 9)	-	-	-	-	-	(3,520)	-	-	(3,520)
Defined benefit actuarial losses, net of tax (note 20)	-	-	-	-	(14,708)	-	-	-	(14,708)
Translation of foreign operations	-	-	-	-	-	-	425	-	425
Balance, September 28, 2019	104,885,464	100,522	300,626	5,085	(8,638)	(3,248)	739	(109,654)	285,432

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

ROGERS SUGAR INC.

Consolidated statements of cash flows
(In thousands of dollars)

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
Cash flows from operating activities:		
Net earnings (loss)	\$ 35,419	\$ (8,167)
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets (note 4)	19,656	15,449
Amortization of intangible assets (note 4)	3,822	3,772
Changes in fair value of derivative financial instruments included in cost of sales	(2,413)	1,472
Income tax expense (note 6)	14,068	14,201
Pension contributions	(9,636)	(8,422)
Pension expense	11,191	8,836
Net finance costs (note 5)	18,523	18,113
Loss on disposal of property, plant and equipment (note 10)	(82)	(16)
Share-based compensation - equity settled (note 23)	168	190
Share-based compensation - cash settled (note 23)	26	5
Goodwill impairment (note 15)	-	50,000
Other	1	7
	90,743	95,440
Changes in:		
Trade and other receivables	(9,381)	(4,039)
Inventories	1,604	(2,828)
Prepaid expenses	(3,761)	1,143
Trade and other payables	13,496	4,306
Provisions (note 18)	(860)	(578)
	1,098	(1,996)
Cash generated from operating activities:	91,841	93,444
Interest paid	(15,900)	(16,350)
Income taxes paid	(11,340)	(21,226)
Net cash flows from operating activities	64,601	55,868
Cash flows used in financing activities:		
Dividends paid	(37,501)	(37,804)
(Decrease) increase in bank overdraft	(5,528)	2,856
Increase in revolving credit facility (note 16)	17,000	5,000
Payment of lease obligations (note 19)	(4,205)	-
Purchase and cancellation of shares (note 22)	(6,536)	(640)
Payment of financing fees (note 13)	(16)	(140)
Net cash flows used in financing activities	(36,786)	(30,728)
Cash flows used in investing activities:		
Additions to property, plant and equipment, net of proceeds on disposal	(26,128)	(26,837)
Additions to intangible assets (note 12)	(25)	(172)
Net cash used in investing activities	(26,153)	(27,009)
Effect of changes in exchange rate on cash	28	52
Net increase (decrease) in cash	1,690	(1,817)
Cash, beginning of year	284	2,101
Cash, end of year	\$ 1,974	\$ 284

Supplemental cash flow information (note 27).

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

1. Reporting entity:

Rogers Sugar Inc. ("Rogers" or the "Company") is a company domiciled in Canada, incorporated under the Canada Business Corporations Act. The head office of Rogers is located at 123 Rogers Street, Vancouver, British Columbia, V6B 3V2. The consolidated financial statements of Rogers as at October 3, 2020 and September 28, 2019 comprise Rogers and the directly and indirectly controlled subsidiaries, Lantic Inc. ("Lantic") and The Maple Treat Corporation ("TMTC"), (together referred to as the "Company"). The principal business activities of the Company are the refining, packaging and marketing of sugar and maple products.

The Company's fiscal year ends on the Saturday closest to the end of September. All references to 2020 and 2019 represent the years ended October 3, 2020 and September 28, 2019.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on November 25, 2020.

(b) Basis of measurement:

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

- (i) derivative financial instruments are measured at fair value,
- (ii) equity-settled share-based compensation, cash-settled share appreciation rights and cash-settled performance share units are measured at fair value,
- (iii) the defined benefit liability is recognized as the net total of the present value of the defined benefit obligation less the total of the fair value of the plan assets and the unrecognized past service costs;
- (iv) assets acquired and liabilities assumed in business combinations are measured at fair value at acquisition date, less any subsequent impairment, if applicable; and
- (v) lease liabilities are measured at the present value of future lease payments when the leased asset is available for use by the Company.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, since it is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands, except as noted and per share amounts.

2. Basis of preparation (continued):

(d) Use of estimates and judgements:

The preparation of these consolidated financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions about future events that affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting years.

The novel coronavirus disease ("COVID-19") did not have a significant impact on estimates and judgements.

The following is a summary of areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements:

(i) Goodwill impairment:

The Company makes a number of estimates when calculating the recoverable amount of a cash-generating unit containing goodwill using discounted future cash flows or other valuation methods.

(ii) Asset impairment:

The Company must assess the possibility that the carrying amounts of tangible and intangible assets may not be recoverable. Management is required to make subjective assessments, linking the possible loss of value of assets to future economic performance, and determine the amount of asset impairment that should be recognized, if any.

3. Significant accounting policies:

(a) Basis of consolidation:

(i) Subsidiaries:

The consolidated financial statements include the Company and the subsidiary it controls, Lantic Inc. ("Lantic") and its subsidiaries, TMTC and Highland Sugarworks Inc. ("Highland") (the latter two companies together referred to as "TMTC"). It should be noted that 9020-2292 Québec Inc. ("Decacer") was amalgamated with TMTC as of September 29, 2019.

Control exists where the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(i) Subsidiaries (continued):

The Company owns 100% of the common shares of Lantic. Lantic Capital Inc., a wholly-owned subsidiary of Belkorp Industries Inc., owns the two outstanding Class C shares of Lantic. These Class C shares are non-voting, have no rights to return or risk of loss and are redeemable for a nominal value of one dollar each. The Class C shares entitle the holder to elect five of the seven directors of Lantic but have no other voting rights at any meetings of Lantic's shareholders except as may be required by law.

Notwithstanding Lantic Capital Inc.'s ability to elect five of the seven directors of Lantic, Lantic Capital Inc. receives no benefits or exposure to losses from its ownership of the Class C shares. As the Class C shares are non-dividend paying and redeemable for a nominal value of one dollar, there is no participation in future dividends or changes in value of Lantic resulting from the ownership of the Class C shares. There is also no management fee or other form of consideration attributable to the Class C shares. The determination of control involves a high degree of judgement. Based on all the facts and available information, management has concluded that the Company has control of Lantic.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(ii) Business combinations:

Business combinations are accounted for using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value of the assets transferred, and any debt and equity interests issued by the Company on the date control of the acquired company are obtained. The consideration transferred includes the fair value of any liability resulting from a contingent consideration arrangement. Contingent consideration classified as a liability that is a financial instrument is subsequently remeasured at fair value, with any resulting gain or loss recognized in the consolidated statements of earnings (loss) and comprehensive income (loss).

Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred and are included in administration and selling expenses in the consolidated statements of earnings (loss) and comprehensive income (loss). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date.

3. Significant accounting policies (continued):

(b) Foreign currency transactions:

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate in effect at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the rate prevailing at the date that the fair value was determined. Foreign denominated non-monetary assets and liabilities that are measured at the historical costs are translated at the rate prevailing at the transaction date. Revenues and expenses denominated in foreign currencies are translated into the functional currency at the rate in effect on the dates they occur. Gains or losses resulting from these translations are recorded in net earnings (loss) of the period.

(c) Foreign operations:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on business combinations, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at the average exchange rate in effect during the reporting period.

Foreign currency differences are recognized in other comprehensive income (loss) in the accumulated foreign currency translation differences account. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to income or loss.

(d) Cash:

Cash includes cash on hand, bank balances and bank overdraft when the latter forms an integral part of the Company's cash management.

(e) Inventories:

Inventories are valued at the lower of cost and net realizable value. The cost of inventories is determined on a first-in, first-out basis and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

3. Significant accounting policies (continued):

(f) Property, plant and equipment:

Property, plant and equipment, with the exception of land, are recorded at cost less accumulated depreciation and any accumulated impairment losses. Land is carried at cost and is not depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Construction-in-progress assets are capitalized during construction and depreciation commences when the asset is available for use.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in cost of sales for assets used in production and in administration and selling expenses for all other assets.

Depreciation related to assets used in production is recorded in cost of sales while the depreciation of all other assets is recorded in administration and selling expenses. Depreciation is calculated on a straight-line basis, after taking into account residual values, over the estimated useful lives of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Significant components of individual assets are assessed and, if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately. The estimated useful lives are as follows:

Barrels	6 years
Buildings	20 to 60 years
Furniture and fixtures	5 to 10 years
Machinery and equipment	5 to 40 years

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Finance leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and depreciation is adjusted on a prospective basis, if necessary.

(g) Intangible assets:

(i) Goodwill:

Goodwill is measured at the acquisition date as the fair value of the consideration transferred less the fair value of the net identifiable assets of the acquired company or business activities. Goodwill is not amortized and is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

(ii) Other intangible assets:

Intangible assets that are acquired by the Company and have finite useful lives are initially measured at cost. Following initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Amortization is calculated over the cost of the asset, less its residual value. Amortization is recognized in administrative expenses on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization of intangible assets not in service begins when they are ready for their intended use. The estimated useful lives are as follows:

Software	5 to 15 years
Customer relationships	10 years
Other	10 years

Brand names are not amortized as they are considered to have an indefinite life.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

3. Significant accounting policies (continued):

(g) Intangible assets:

(ii) Other intangible assets (continued):

For intangible assets with finite life, useful lives and residual values are reviewed at each financial year-end and amortization is adjusted on a prospective basis, if necessary.

(h) Leases:

Effective September 29, 2019 (date of initial application), the Company adopted IFRS 16 using the modified retrospective transition approach. Accordingly, comparative figures as at and for the year-ended September 28, 2019 have not been restated and continue to be reported under IAS 17 and IFRIC 4. The impacts of changes are disclosed in note 3 q) i).

As a result of the adoption of IFRS 16, the Company updated its accounting policy for leases as follows:

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. The lease payments include fixed and in-substance fixed payments and variable lease payments that depend on an index or rate, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. The Company uses the lessee's incremental borrowing rate for its present value calculations. Lease payments are discounted over the lease term, which includes the fixed term and renewal options that the Company is reasonably certain to exercise. Lease payments are allocated between the lease liability and a finance cost, which is recognized in finance costs over the lease term in the consolidated statement of earnings.

Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in administration and selling expenses or distribution expenses as incurred.

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. Cost is calculated as the initial measurement of the lease liability plus any initial direct costs and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life.

(i) Impairment:

Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives, the recoverable amount is estimated yearly at the same time, at year-end, and whenever there is an indication that the asset might be impaired.

3. Significant accounting policies (continued):

(i) Impairment (continued):

Non-financial assets (continued):

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

The Company's corporate assets do not generate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Employee benefits:

(i) Pension benefit plans:

The Company provides post-employment benefits through defined benefit and defined contribution plans. The Company also sponsors Supplemental Executive Retirement Plans ("SERP"), which are neither registered nor pre-funded. Finally, the Company sponsors defined benefit life insurance, disability plans and medical benefits for some retirees and employees.

Defined contribution plans

The Company's obligations for contributions to employee defined contribution pension plans are recognized as employee benefit expense in profit or loss in the years during which services are rendered by employees.

3. Significant accounting policies (continued):

(j) Employee benefits (continued):

(i) Pension benefit plans (continued):

Defined benefit plans

The Company maintains some contributory defined benefit plans that provide for pensions to employees based on years of service and the employee's compensation. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior years, discounting that amount and deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (loss). The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. Costs related to plan settlements are recorded at the time the Company is committed to a settlement as a separate constructive obligation. Subsequent to the Company being committed to a settlement, the plan liability is measured at the expected settlement amount using settlement interest rates.

3. Significant accounting policies (continued):

(j) Employee benefits (continued):

(ii) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under cash incentive if the Company has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based compensation:

The Company has a Share Option Plan. Share-based payment awards are measured at fair value at the grant date, which is recognized as a personnel expense, with a corresponding increase in contributed surplus over the vesting period, which is normally five years. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met. Any consideration paid by employees on exercise of share options is credited to share capital.

(iv) Employee share purchase plan:

The Company has an Employee Share Purchase Plan that is an equity-settled share-based payment with employees; the measurement is based on the grant-date fair value of the equity instrument granted. As such, the expense is recognized when the employee purchases the shares.

(v) Cash-settled Performance Share Units:

The Company implemented a Performance Share Units plan ("PSU") entitling certain senior personnel to a cash payment. A liability is recognized in payables for the services acquired and is recorded at fair value based on the share price of the Company's Common Shares with a corresponding expense recognized in administration and selling expenses. The amount recognized as an expense is adjusted to reflect the number of units for which the related service and performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the units of awards that do meet the related service and non-market performance conditions at the vesting date.

At the end of each reporting period until the liability is settled, the fair value of the liability is re-measured, with any changes in fair value recognized in the consolidated statement of earnings (loss). The fair value of the employee benefits expense of the PSUs is measured using the Monte Carlo pricing model.

3. Significant accounting policies (continued):

(j) Employee benefits (continued):

(vi) Termination benefits:

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be fully settled within 12 months of the end of the reporting period, they are discounted.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

(i) Asset retirement obligation:

The Company recognizes the estimated liability for future costs to be incurred in the remediation of site restoration in regards to asbestos removal and disposal of such asbestos to a landfill for hazardous waste, and for oil, chemical and other hazardous materials storage tanks, only when a present legal or constructive obligation has been determined and that such obligation can be estimated reliably. Upon initial recognition of the obligation, the corresponding costs are added to the carrying amount of the related items of property, plant and equipment and amortized as an expense over the economic life of the asset, or earlier if a specific plan of removal exists. This obligation is reduced every year by payments incurred during the year in relation to these items. The obligation might be increased by any required remediation to the owned assets that would be required through enacted legislation.

(ii) Contingent liability:

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the Company, or a present obligation that arises from past events (and therefore exists), but is not recognized because it is not probable that a transfer or use of assets, provision of services, or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

3. Significant accounting policies (continued):

(l) Financial instruments:

(i) IFRS 9, Financial Instruments:

The following summarizes the classification and measurement for the Company's non-derivative and derivative financial assets and financial liabilities.

Financial assets:	IFRS 9 (2014)
Cash	Amortized cost
Trade and other receivables	Amortized cost
Income taxes receivable	Amortized cost
Non-hedged derivative assets	Fair value through profit or loss

Financial liabilities:	IFRS 9 (2014)
Bank overdraft	Amortized cost
Revolving credit facility	Amortized cost
Amortized cost	Amortized cost
Trade and other payables	Amortized cost
Income taxes payable	Amortized cost
Amortized cost	Amortized cost
Lease obligations	Amortized cost
Convertible unsecured subordinated debentures	Amortized cost
Other long-term liabilities	Fair value through profit or loss
Non-hedged derivative liabilities	Fair value through profit or loss

The Company's natural gas futures and interest rate swap agreements were designated as being effective hedging instruments.

The Company initially recognizes financial instruments on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value. In the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are added to or deducted from the fair value.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(ii) Financial assets:

Financial assets are classified into the following categories:

a. Financial assets measured at amortized cost:

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objectives is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principals and/or interest.

The Company currently classifies its cash, trade accounts receivable, and certain other current assets as assets measured at amortized cost. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. The Company has a portfolio of trade receivables at the reporting date.

The Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against trade and other receivables.

b. Financial assets measured at fair value:

These assets are measured at fair value and changes therein, including any interest are recognized in profit or loss. The Company currently has no significant financial assets measured at fair value, except for non-hedged derivative assets.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(iii) Financial liabilities:

Financial liabilities are classified into the following categories:

a. Financial liabilities measured at amortized cost:

A financial liability is subsequently measured at amortized cost, using the effective interest method. The Company currently classifies and measures bank overdraft and revolving credit facility, trade payables and accrued liabilities, lease obligations, and convertible unsecured subordinated debentures as financial liabilities measured at amortized cost.

b. Financial liabilities measured at fair value:

Financial liabilities at fair value are initially recognized at fair value and are re-measured at each reporting date with any changes therein recognized in net earnings (loss). The Company currently has no significant financial liabilities measured at fair value except for non-hedged derivative liabilities.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iv) Fair values of financial instruments:

Financial assets and liabilities measured at fair value use a fair value hierarchy to prioritize the inputs used in measuring fair value as follows:

Level 1 - valuation based on observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); and

Level 3 - valuation techniques with observable market inputs (involves assumptions and estimates by management of how market participants would price the asset or liability).

a. Cash:

The Company classifies its cash as amortized cost assets. Cash includes cash on hand, bank balances and bank overdraft when the latter forms an integral part of the Company's cash management.

3. Significant accounting policies (continued):

(l) Financial instruments (continued):

(iv) Fair values of financial instruments (continued):

b. Derivative financial instruments and hedging relationships:

The Company enters into derivative financial instruments to hedge its market risk exposures. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items throughout the period for which the hedge is designated. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net earnings (loss).

c. Other derivatives:

When a derivative financial instrument, for example, sugar futures and at times options ("sugar contracts"), foreign exchange forward contracts and embedded derivatives is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in net earnings (loss) (marked-to-market).

d. Compound financial instruments:

The Company's convertible unsecured subordinated debentures are accounted for as compound financial instruments. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, dividends, gains and losses relating to the financial liability are recognized in profit or loss.

3. Significant accounting policies (continued):

(l) Financial instruments (continued):

(iv) Fair values of financial instruments (continued):

e. Financing charges:

Financing charges, which reflect the cost to obtain new financing, are offset against the debt for which they were incurred and recognized in finance costs using the effective interest method. Financing charges for the revolving credit facility are recorded with other assets.

f. Trade date:

The Company recognizes and derecognizes purchases and sales of derivative contracts on the trade date.

g. Share capital:

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Dividends to the equity holders are recorded in equity.

Repurchase of share capital

When share capital recognized as equity is repurchased for cancellation, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to deficit.

(v) Cash flow hedges:

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect net earnings (loss), the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income (loss) as part of equity.

The amount recognized in other comprehensive income (loss) is removed and included in net earnings (loss) under the same line item in the consolidated statements of earnings (loss) and comprehensive income (loss) as the hedged item, in the same period that the hedged cash flows affect net earnings (loss).

3. Significant accounting policies (continued):

(l) Financial instruments (continued):

(v) Cash flow hedges (continued):

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income (loss) remains in accumulated other comprehensive income (loss) until the forecasted transaction affects profit or loss.

If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income (loss) is recognized immediately in net earnings (loss).

When the hedged item is a non-financial asset, the amount recognized in other comprehensive income (loss) is transferred to net earnings (loss) in the same period that the hedged item affects net earnings (loss).

The Company has designated as hedging items its natural gas futures and its interest rate swap agreements entered into in order to protect itself against natural gas price and interest rate fluctuations as cash flow hedges.

(m) Revenue recognition:

The Company derives revenue from the sale of finished goods, which include sugar and maple products. The Company recognizes revenue when all performance obligations have been met which is generally at a point in time when it transfers control of the finished goods to a customer, which occurs upon shipment of the finished goods from the Company's facilities or upon delivery of the finished goods to the customer's premises. Some arrangements for the sale of finished goods provide for customer price discounts and/or volume rebates based on aggregate sales over a specified period, which gives rise to variable consideration. At the time of sale, estimates are made for items giving rise to variable consideration based on the terms of the sales program or arrangement. The variable consideration is estimated at contract inception using the most likely amount method and revenue is only recognized to the extent that a significant reversal of revenue is not expected to occur.

The estimate is based on historical experience, current trends, and other known factors. Sales are recorded net of customer discounts, rebates, and exclude sales taxes.

3. Significant accounting policies (continued):

(n) Finance income and finance costs:

Finance income comprises interest income on funds invested and finance costs comprise interest expense on borrowings. Changes in the fair value of interest rate swaps are recorded initially in other comprehensive income since inception of the cash flow hedge and transferred to finance income and finance costs in the same period that the hedged cash flows affect net earnings (loss). Interest expense is recorded using the effective interest method.

(o) Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred taxes are 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 taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred taxes are 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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. In addition, the effect on deferred tax assets or liabilities of a change in tax rates is recognized in profit or loss in the period in which the enactment or substantive enactment takes place, except to the extent that it relates to an item recognized either in other comprehensive income (loss) or directly in equity in the current or in a previous period. 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.

3. Significant accounting policies (continued):

(p) Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares from the conversion of the convertible debentures.

(q) New standards and interpretations adopted:

(i) IFRS 16, *Leases*:

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019.

Effective September 29, 2019 (date of initial application), the Company adopted IFRS 16 using the modified retrospective transition approach. Accordingly, comparative figures as at and for the year-ended September 28, 2019 have not been restated and continue to be reported under IAS 17 and IFRIC 4.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or modified on or after September 29, 2019.

At transition, the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating lease under IAS 17;

- the Company relied on the assessment of the onerous lease provisions under IAS 37, Provisions, contingent liabilities and contingent assets, instead of performing an impairment review. The Company adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognized in the consolidated statements of financial position immediately before the date of initial application;
- the Company accounted for low-value leases and leases for which the lease term ends within twelve months of the date of initial application as short-term leases; and
- the Company used hindsight in determining the lease term at the date of initial application.

3. Significant accounting policies (continued):

(q) New standards and interpretations adopted (continued):

(i) IFRS 16, *Leases* (continued):

The Company applied the modified retrospective transition approach measuring the right-of-use asset ("ROU asset") to be equal to the lease liability with no restatement of the comparative period. As such, as at September 29, 2019, the Company recorded ROU assets of \$11.0 million and lease obligations of \$11.0 million. When measuring the lease liabilities, the Company discounted future lease payments using its incremental borrowing rate as at September 29, 2019 being 4.40%.

The following table summarizes the impact of the adoption on certain items on the Company's consolidated balance sheet as at September 29, 2019:

	September 28, 2019	Transition adjustments	September 29, 2019
	\$	\$	\$
Property, plant and equipment	220,408	(1,059)	219,349
Right-of-use assets	-	12,094	12,094
Finance lease obligations - current	139	(139)	-
Lease obligations - current	-	2,596	2,596
Finance lease obligations - non-current	742	(742)	-
Lease obligations - non-current	-	9,320	9,320

The following table reconciles the Company's operating lease commitments as at September 28, 2019 as previously disclosed in the Company's audited annual consolidated financial statements, to the lease obligation recognized on initial application of IFRS 16 as at September 29, 2019:

	\$
Operating lease commitment as at September 28, 2019	20,930
Finance lease liability as at September 28, 2019	881
Lease commitments of leases commencing after the initial application date	(9,349)
Recognition exemption for short-term leases	(263)
Discounted using the incremental borrowing rate as at September 29, 2019	(2,214)
Extension option reasonably certain to be exercised	3,240
Other	(1,309)
Lease obligations as at September 29, 2019	11,916

As a result of the adoption of IFRS 16, the Company updated its accounting policy for leases as reflected in note 3 (h).

3. Significant accounting policies (continued):

(q) New standards and interpretations adopted (continued):

(ii) IFRIC 23, Uncertainty over Income Tax Treatments:

On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments.

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Interpretation requires an entity to:

- Contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- Measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Company adopted the Interpretation in its consolidated financial statements for the annual period beginning on September 29, 2019. The adoption of the Interpretation did not have an impact on the consolidated financial statements.

(iii) Annual Improvements to IFRS Standards (2015-2017) Cycle:

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

Amendments were made to the following standards:

- IFRS 3, Business Combinations and IFRS 11, Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12, Income Taxes - to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits - in profit or loss, OCI, or equity; and

3. Significant accounting policies (continued):

(q) New standards and interpretations adopted (continued):

(iii) Annual Improvements to IFRS Standards (2015-2017) Cycle (continued):

Amendments were made to the following standards (continued):

- IAS 23, Borrowing Costs - to clarify that specific borrowings - i.e. funds borrowed specifically to finance the construction of a qualifying asset - should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

The Company adopted the amendments in its consolidated financial statements for the annual period beginning on September 29, 2019. The adoption of the amendments did not have an impact on the consolidated financial statements.

(r) New standards and interpretations not yet adopted:

A number of new standards and amendments to standards and interpretations are not yet effective for the year ending October 3, 2020 and have not been applied in preparing these consolidated financial statements. New standards and amendments to standards and interpretations that are currently under review include:

(i) Amendments to References to the Conceptual Framework in IFRS Standards:

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards (the Amendments) to update references in IFRS Standards to previous versions of the Conceptual Framework.

Both documents are effective from January 1, 2020 with earlier application permitted.

The Company does not intend to adopt the Amendments in its consolidated financial statements before the annual period beginning on October 4, 2020. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

4. Depreciation and amortization expenses:

Depreciation and amortization expenses were charged to the consolidated statements of earnings (loss) and comprehensive income (loss) as follows:

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Depreciation of property, plant and equipment:		
Cost of sales	15,677	14,927
Administration and selling expenses	545	522
	16,222	15,449
Depreciation of right-of-use assets:		
Cost of sales	2,324	-
Administration and selling expenses	1,110	-
	3,434	-
Amortization of intangible assets:		
Administration and selling expenses	3,822	3,772
	3,822	3,772
Total depreciation and amortization expenses	23,478	19,221

5. Finance income and finance costs:

Recognized in net earnings (loss):

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Net change in fair value of interest rate swaps (note 9)	197	378
Finance income	197	378
Interest expense on convertible unsecured subordinated debentures, including accretion of \$868 (2019 - \$821) (note 21)	8,446	8,339
Interest on revolving credit facility	6,723	7,337
Amortization of deferred financing fees	1,187	1,178
Other interest expense	1,500	1,637
Interest accretion on discounted lease obligations	864	-
Finance costs	18,720	18,491
Net finance costs recognized in net earnings (loss)	18,523	18,113

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

6. Income tax expense (recovery):

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Current tax expense:		
Current period	11,290	16,084
Deferred tax expense (recovery):		
Recognition and reversal of temporary differences	2,249	(978)
Adjustments for prior year periods	384	(453)
Changes in tax rates	145	(452)
Deferred tax expense (recovery)	2,778	(1,883)
Total income tax expense	14,068	14,201

Income tax recognized in other comprehensive income (loss):

	For the fiscal years ended					
	October 3, 2020			September 28, 2019		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
	\$	\$	\$	\$	\$	\$
Cash flow hedges	(3,887)	1,016	(2,871)	(4,763)	1,243	(3,520)
Defined benefit actuarial losses	(5,847)	1,502	(4,345)	(19,902)	5,194	(14,708)

Reconciliation of effective tax rate:

The provision for income taxes differs from the amount computed by applying the Canadian federal and provincial tax rates to earnings before provision for income taxes. The reasons for the difference and the related tax effects are as follows:

	For the fiscal years ended			
	October 3, 2020		September 28, 2019	
	%	\$	%	\$
Earnings before income taxes	-	49,487	-	6,034
Income taxes using the Company's statutory tax rate	27.00	13,362	27.00	1,629
Changes due to the following items:				
Changes in tax rates	0.29	145	(7.49)	(452)
Non-deductible expenses	0.36	177	2.59	156
Non-deductible impairment of goodwill	-	-	220.76	13,321
Adjustments for prior year periods	0.78	384	(7.51)	(453)
Other	-	-	-	-
	28.43	14,068	235.35	14,201

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

7. Trade and other receivables:

	October 3, 2020	September 28, 2019
	\$	\$
Trade receivables	82,191	80,174
Less expected credit loss	(662)	(827)
	81,539	79,347
Other receivables	11,866	5,961
Initial margin deposits with commodity brokers	867	515
	94,262	85,823

The Company grants credit to its customers in the ordinary course of business.

Management believes that the Company's exposure to credit risk and impairment losses related to trade and other receivables is limited due to the following reasons:

- There is a broad base of customers with dispersion across different market segments.
- Bad debt write-offs to total revenue have been less than 0.1% for each of the last five years (averaging less than \$0.2 million per year). Write-offs for fiscal 2020 were \$0.2 million (September 28, 2019 - \$0.1 million). All bad debt write-offs are charged to administration and selling expenses.
- Less than 1% of trade receivables are outstanding for more than 90 days (September 28, 2019 - less than 2%), while over 84% are current (less than 30 days) as at October 3, 2020 (September 28, 2019 - 83%).

Through general security agreements with its lenders, trade and other receivables have been granted as continuing collateral security for all present and future indebtedness to the current lenders.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

8. Inventories:

	October 3, 2020	September 28, 2019
	\$	\$
Raw inventory	104,852	113,487
Work in progress	10,378	7,947
Finished goods	37,975	36,356
	153,205	157,790
Packaging and operating supplies	13,453	11,831
Spare parts and other	14,134	12,738
	180,792	182,359

Costs of sales expensed during the year were all inventorial items, except for fixed costs incurred in Taber, Alberta, after the beet slicing campaign, and mark-to-market adjustments of derivative financial instruments.

As at October 3, 2020, inventories recognized as cost of goods sold amounted to \$734.7 million (September 28, 2019 - \$677.7 million).

9. Financial instruments:

Derivative financial instruments

Fair value estimates are made as of a specific point in time, using available information about the financial instruments. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring the fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value of derivative instruments is the estimated amount that the Company would receive or pay to terminate the instruments at the reporting date. The fair values have been determined by reference to prices available from the markets on which the instruments trade, subject to credit adjustments as applicable. The fair values of the sugar future contracts and options are measured using Level 1 inputs, using published quoted values for these commodities. The fair values for the natural gas futures contracts, foreign exchange forward contracts and interest rate swap contracts are measured using Level 2 inputs. The fair values for these derivative assets or liabilities are estimated using industry standard valuation models.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, natural gas prices, foreign exchange rates, and forward and spot prices for currencies.

The fair values of all derivative instruments approximate their carrying value and are recorded as separate line items on the consolidated statements of financial position.

The Company's natural gas futures and interest rate swap agreements were designated as cash flow hedges and qualified for hedge accounting.

Details of recorded gains (losses) for the year, in marking-to-market all derivative financial instruments and embedded derivatives that are outstanding at year-end, are noted below. For sugar futures contracts (derivative financial instruments), the amounts noted below are netted with the variation margins paid or received to/from brokers at the end of the reporting period. Natural gas forwards and sugar futures have been marked-to-market using published quoted values for these commodities, while foreign exchange forward contracts have been marked-to-market using rates published by the financial institution, which is a counterparty to these contracts. The fair values of the interest rate swaps have been determined by using rates published on financial capital markets.

The fair value of natural gas futures contracts, foreign exchange forward contracts and interest rate swap calculations includes a credit risk adjustment for the Company's or counterparty's credit, as appropriate.

As at October 3, 2020 and September 28, 2019, the Company's financial derivatives carrying values were as follows:

	Financial Assets		Financial Liabilities	
	Current	Non-current	Current	Non-current
	October 3, 2020		October 3, 2020	
	\$	\$	\$	\$
Derivative financial instruments measured at fair value through profit or loss:				
Sugar futures contracts	8	95	-	-
Foreign exchange forward contracts	2,521	63	-	-
Derivative financial instruments designated as effective cash flow hedging instruments:				
Natural gas futures contracts	87	-	-	1,662
Interest rate swap	-	-	1,458	5,271
	2,616	158	1,458	6,933

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

	Financial Assets		Financial Liabilities	
	Current September 28, 2019	Non-current	Current September 28, 2019	Non-current
	\$	\$	\$	\$
Derivative financial instruments measured at fair value through profit or loss:				
Sugar futures contracts	27	-	-	59
Foreign exchange forward contracts	673	21	13	328
Derivative financial instruments designated as effective cash flow hedging instruments:				
Natural gas futures contracts	-	-	602	2,956
Interest rate swap	231	-	-	1,334
	931	21	615	4,677

	Charged to cost of sales Unrealized gain (loss)		Charged to finance income		For the fiscal years ended Other comprehensive gain (loss)	
	October 3, 2020 \$	September 28, 2019 \$	October 3, 2020 \$	September 28, 2019 \$	October 3, 2020 \$	September 28, 2019 \$
Derivative financial instruments measured at fair value through profit or loss:						
Sugar futures contracts	(801)	179	-	-	-	-
Foreign exchange forward contracts	2,615	(541)	-	-	-	-
Derivative financial instruments designated as effective cash flow hedging instruments:						
Natural gas futures contracts	95	1,658	-	-	1,886	(784)
Interest rate swap	-	-	197	378	(5,773)	(3,979)
	1,909	1,296	197	378	(3,887)	(4,763)

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

The following table summarizes the Company's hedging components of other comprehensive income (loss) ("OCI") as at October 3, 2020 and September 28, 2019:

	October 3, 2020			September 28, 2019		
	Natural gas futures contracts	Interest rate swap	Total	Natural gas futures contracts	Interest rate swap	Total
	\$	\$	\$	\$	\$	\$
Opening OCI	(2,751)	(1,740)	(4,491)	(2,229)	2,492	263
Income taxes	204	1,039	1,243	262	(253)	9
Opening OCI - net of income taxes	(2,547)	(701)	(3,248)	(1,967)	2,239	272
Change in fair value of derivatives designated as cash flow hedges	1,981	(5,576)	(3,595)	874	(3,601)	(2,727)
Amounts reclassified to net earnings (loss)	(95)	(197)	(292)	(1,658)	(378)	(2,036)
Income taxes	(493)	1,509	1,016	204	1,039	1,243
Ending OCI - net of income taxes	(1,154)	(4,965)	(6,119)	(2,547)	(701)	(3,248)

For the fiscal year ended October 3, 2020, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net earnings (loss).

Approximately \$1.0 million of net losses presented in accumulated other comprehensive income (loss) are expected to be reclassified to net earnings (loss) within the next twelve months.

For its financial assets and liabilities measured at amortized cost as at October 3, 2020 and September 28, 2019, the Company has determined that the carrying value of its short-term financial assets and liabilities approximates their fair value because of the relatively short period to maturity of these instruments.

The Company uses derivative financial instruments to manage its exposure to changes in raw sugar, foreign exchange, and natural gas prices. In addition, the Company entered into interest rate swap contracts to fix a portion of the Company's exposure to floating interest rate debt on its short-term borrowings. The Company's objective for holding derivatives is to minimize risk using the most efficient methods to eliminate or reduce the impacts of these exposures.

(a) Raw sugar:

The Company's risk management policy is to manage the forward pricing of purchases of raw sugar in relation to its forward refined sugar sales to reduce price risk. The Company attempts to meet this objective by entering into futures contracts to reduce its exposure. Such financial instruments are used to manage the Company's exposure to variability in fair value attributable to the committed purchase price of raw sugar. The pricing mechanisms of futures contracts and the respective forecasted raw sugar purchase transactions are the same.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

(a) Raw sugar (continued):

The Company's raw sugar futures contracts as well as the fair value of these contracts relating to purchases or sales of raw sugar as at October 3, 2020 and September 28, 2019 are as follows:

	October 3, 2020			September 28, 2019		
	Original futures contracts value	Current contract value	Fair value gain/(loss)	Original futures contracts value	Current contract value	Fair value gain/(loss)
	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
Purchases						
0 - 6 months	33,496	35,997	2,501	35,746	35,393	(353)
6 - 12 months	66,611	72,132	5,521	51,877	51,665	(212)
12 - 24 months	16,737	16,611	(126)	6,964	6,757	(207)
Over 24 months	2,022	2,013	(9)	613	604	(9)
	118,866	126,753	7,887	95,200	94,419	(781)
Sales						
0 - 6 months	(31,580)	(35,573)	(3,993)	(40,393)	(39,774)	619
6 - 12 months	(69,148)	(74,749)	(5,601)	(39,556)	(38,553)	1,003
12 - 24 months	(20,594)	(20,315)	279	(12,816)	(12,556)	260
Over 24 months	-	-	-	-	-	-
	(121,322)	(130,637)	(9,315)	(92,765)	(90,883)	1,882
Net position	(2,456)	(3,884)	(1,428)	2,435	3,536	1,101
Foreign exchange rate at the end of period			1.3304			1.3247
Net value (CA\$)			(1,900)			1,458
Margin call (receipt) payment at year-end			2,003			(1,490)
Net asset (liability) (CA\$)			103			(32)

All sugar futures contracts are traded through a large exchange clearing house on the New York Intercontinental Exchange. Regulation of the U.S. futures industry is primarily self-regulation, with the role of the Federal Commodity Futures Trading Commission being principally an oversight role to determine that self-regulation is continuous and effective.

The exchange clearing house used is one of the world's largest capitalized financial institutions with excellent long-term credit ratings. Daily cash settlements are mandatory (margin calls) for resulting gains and/or losses from futures trading for each customer's account. Due to the above, the Company does not anticipate a credit risk from the raw sugar futures derivative instruments.

9. Financial instruments (continued):

Derivative financial instruments (continued)

(b) Natural gas:

The Company uses natural gas contracts to help manage its costs of natural gas. The Company monitors its positions and the credit ratings of its counterparties and does not anticipate losses due to counterparty's non-performance. The Company's natural gas contracts as well as the fair value of these contracts relating to purchases of natural gas are as follows:

	October 3, 2020			September 28, 2019		
	Original futures contracts value	Current contract value	Fair value gain/(loss)	Original futures contracts value	Current contract value	Fair value gain/(loss)
	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
Purchases						
Less than 1 year	5,106	5,171	65	5,904	5,449	(455)
1 to 2 years	6,413	6,144	(269)	6,415	5,480	(935)
2 to 3 years	6,384	5,960	(424)	6,429	5,568	(861)
3 years and over	12,546	11,990	(556)	9,834	9,399	(435)
	30,449	29,265	(1,184)	28,582	25,896	(2,686)
Foreign exchange rate at the end of period			1.3304			1.3247
Net liability (CA\$)			(1,575)			(3,558)

The forecasted purchases of natural gas, the hedged items, are used for calculating the hedge ineffectiveness. No ineffectiveness was recognized in net earnings (loss) as the change in value of the hedging instrument for calculating ineffectiveness was the same or smaller as the change in value of the hedged items used for calculating the ineffectiveness.

(c) Foreign exchange contracts:

The Company's activities, which result in exposure to fluctuations in foreign currency exchange rates, consist of the purchasing of raw sugar, the selling of refined sugar and maple products, the purchase of natural gas and purchases of property, plant and equipment. The Company manages this exposure by creating offsetting positions through the use of financial instruments. These instruments include forward contracts, which are commitments to buy or sell U.S. dollars or Euros at a future date, and may be settled in cash.

The credit risk associated with foreign exchange contracts arises from the possibility that a counterparty to a foreign exchange contract, in which the Company has an unrealized gain, fails to perform according to the terms of the contract. The credit risk is much less than the notional principal amount, being limited at any time to the change in foreign exchange rates attributable to the principal amount.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

(c) Foreign exchange contracts (continued):

Forward foreign exchange contracts have maturities of less than four years and relate mostly to U.S. currency, and from time to time, Euro currency. The counterparties to these contracts are major Canadian financial institutions. The Company does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by the counterparties.

The Company's foreign currency forward contracts relating to the purchase of raw sugar, the sale of refined sugar, the purchase of natural gas and purchases of property, plant and equipment for the sugar segment are detailed below. In addition, for the maple products segment, the Company hedges its exposure to fluctuations in foreign currency related to its anticipated cash flows from sales to specific U.S. customers, using a foreign exchange forward contract.

	Original contract value (US/EUR/AUD\$)	Original contract value (CA\$)	Current contract value (CA\$)	October 3, 2020 Fair value gain/(loss) (CA\$)
Sugar				
Purchases U.S. dollars				
Less than 1 year	68,395	81,032	70,145	(10,887)
1 to 2 years	5,232	5,791	5,758	(33)
2 to 3 years	400	540	550	10
	74,027	87,363	76,453	(10,910)
Sales U.S. dollars				
Less than 1 year	(121,608)	(152,480)	(140,947)	11,533
1 to 2 years	(17,093)	(21,621)	(21,550)	71
2 to 3 years	(3,513)	(4,706)	(4,706)	-
3 years and over	(179)	(236)	(240)	(4)
	(142,393)	(179,043)	(167,443)	11,600
Total U.S. dollars - Sugar	(68,366)	(91,680)	(90,990)	690
Sugar				
Purchases EUR				
Less than 1 year	672	1,058	1,055	(3)
1 to 2 years	-	-	(2)	(2)
Total EUR - Sugar	672	1,058	1,053	(5)
Maple products				
Purchases U.S. dollars				
Less than 1 year	3,201	4,292	4,012	(280)
Sales U.S. dollars				
Less than 1 year	(34,475)	(47,715)	(45,623)	2,092
1 to 2 years	(1,788)	(2,400)	(2,380)	20
2 to 3 years	(103)	(139)	(138)	1
	(36,366)	(50,254)	(48,141)	2,113
Total U.S. dollars - Maple	(33,165)	(45,962)	(44,129)	1,833

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

(c) Foreign exchange contracts (continued):

	Original contract value (US/EUR/AUD\$)	Original contract value (CA\$)	Current contract value (CA\$)	October 3, 2020 Fair value gain/(loss) (CA\$)
Maple products				
Sales EUR				
Less than 1 year	(12,108)	(19,022)	(18,923)	99
Total EUR - Maple	(12,108)	(19,022)	(18,923)	99
Maple products				
Sales AUD				
Less than 1 year	(5,123)	(4,840)	(4,873)	(33)
Total AUD - Maple	(5,123)	(4,840)	(4,873)	(33)
Total Foreign Exchange	(118,090)	(160,446)	(157,862)	2,584

	Original contract value (US/EUR/AUD\$)	Original contract value (CA\$)	Current contract value (CA\$)	September 28, 2019 Fair value gain/(loss) (CA\$)
Sugar				
Purchases U.S. dollars				
Less than 1 year	66,592	77,280	77,782	502
1 to 2 years	8,481	11,157	11,614	457
2 to 3 years	575	756	760	4
	75,648	89,193	90,156	963
Sales U.S. dollars				
Less than 1 year	(96,978)	(117,528)	(118,025)	(497)
1 to 2 years	(14,791)	(19,178)	(19,964)	(786)
2 to 3 years	(1,616)	(2,138)	(2,142)	(4)
	(113,385)	(138,844)	(140,131)	(1,287)
Total U.S. dollars - Sugar	(37,737)	(49,651)	(49,975)	(324)
Sugar				
Purchases EUR				
Less than 1 year	263	400	382	(18)
Total EUR - Sugar	263	400	382	(18)
Maple products				
Purchases U.S. dollars				
Less than 1 year	2,500	3,323	3,303	(20)
Sales U.S. dollars				
Less than 1 year	(28,694)	(38,204)	(37,973)	231
1 to 2 years	(400)	(531)	(530)	1
	(29,094)	(38,735)	(38,503)	232
Total U.S. dollars - Maple	(26,594)	(35,412)	(35,200)	212

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Derivative financial instruments (continued)

(c) Foreign exchange contracts (continued):

	Original contract value	Original contract value	Current contract value	September 28, 2019 Fair value gain/(loss)
	(US/EUR/AUD\$)	(CA\$)	(CA\$)	(CA\$)
<u>Maple products</u>				
Purchases EUR				
Less than 1 year	155	236	227	(9)
Sales EUR				
Less than 1 year	(8,072)	(12,283)	(11,816)	467
1 to 2 years	(270)	(426)	(406)	20
	(8,342)	(12,709)	(12,222)	487
Total EUR - Maple	(8,187)	(12,473)	(11,995)	478
<u>Maple products</u>				
Sales AUD				
Less than 1 year	(2,666)	(2,404)	(2,399)	5
1 to 2 years	(148)	(134)	(134)	-
Total AUD - Maple	(2,814)	(2,538)	(2,533)	5
Total Foreign Exchange	(75,069)	(99,674)	(99,321)	353

(d) Interest rate swap agreements:

In order to fix the interest rate on a substantial portion of the expected drawdown of the revolving credit facility, the Company enters into interest rate swap agreements. The outstanding swap agreements by maturity are as follows:

Fiscal year contracted	Date	Total value \$
Fiscal 2017	May 29, 2017 to June 28, 2022 - 1.454%	20,000
Fiscal 2017	September 1, 2017 to June 28, 2022 - 1.946%	30,000
Fiscal 2017	June 29, 2020 to June 29, 2022 - 1.733%	30,000
Fiscal 2019	March 12, 2019 to June 28, 2024 - 2.08%	20,000
Fiscal 2019	June 28, 2022 to June 28, 2024 - 2.17%	80,000
Fiscal 2020	October 3, 2019 to June 28, 2024 - 1.68%	20,000
Fiscal 2020	February 24, 2020 to June 28, 2025 - 1.60%	20,000
Fiscal 2020	March 6, 2020 to June 28, 2021 - 1.08%	20,000
Fiscal 2020	June 28, 2021 to June 28, 2023 - 1.08%	10,000
Fiscal 2020	June 28, 2024 to June 28, 2025 - 1.18%	80,000

9. Financial instruments (continued):

Derivative financial instruments (continued)

(d) Interest rate swap agreements (continued):

The counterparties to these swap agreements are major Canadian financial institutions. The Company does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of swap agreements, nor does it anticipate non-performance by the counterparties. As at October 3, 2020, the fair value of the swap agreements amounted to a liability of \$6.7 million (September 28, 2019 - liability of \$1.1 million).

The forecasted interest payments, the hedged items, are used for calculating the hedge ineffectiveness. No ineffectiveness was recognized in net earnings (loss) as the change in value of the hedging instrument for calculating ineffectiveness was the same or smaller as the change in value of the hedged items used for calculating the ineffectiveness.

Risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks at year-end.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company believes it has limited credit risk other than those explained in Note 7, Trade and other receivables and Note 9, Financial instruments.

(b) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rate. The Company's significant cash flow exposure to foreign currency is due mainly to the following:

- sales in U.S. dollars for both the sugar and maple products segments;
- purchases of natural gas;
- sales of by-products;
- Taber refined sugar and by-products sales;
- ocean freight; and
- purchases of property, plant and equipment for both the sugar and maple products segments.

The Company mitigates its exposure to foreign currency by entering into forward exchange contracts (see Note 9, Financial instruments; Derivative financial instruments, (c) Foreign exchange contracts).

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Risks (continued)

(b) Currency risk (continued):

The Company had the following significant foreign currency exposures at year-end:

	October 3, 2020	September 28, 2019
	(US\$)	(US\$)
Financial instruments measured at amortized cost:		
Cash	3,126	2,115
Trade and other receivables, including initial margin deposits	22,400	21,330
Trade and other payables	(2,703)	(3,356)
	22,823	20,089
Financial instruments at fair value through profit or loss:		
Raw sugar futures sales contracts	121,322	92,765
Raw sugar futures purchases contracts	(118,866)	(95,200)
Natural gas contracts	(30,449)	(28,582)
Fair value loss or (gain) on futures contracts	1,428	(1,101)
	(26,565)	(32,118)
Total exposure from above	(3,742)	(12,029)
Forward exchange contracts	(101,532)	(64,333)
Gross exposure	(105,274)	(76,362)

As at October 3, 2020, the U.S./Can. exchange rate was \$1.3304 (September 28, 2019 - \$1.3247).

Based on the above gross exposure at year-end, and assuming that all other variables remain constant, in particular the price of raw sugar and natural gas, a 5-cent increase in the Canadian dollar would result in an increase in net earnings of \$3.9 million, (September 28, 2019 - decrease in net loss of \$2.8 million) while a 5-cent decrease would have an equal but opposite effect on net earnings (loss).

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Risks (continued)

(b) Currency risk (continued):

Management believes that the impact on the gross exposure is not representative as it needs to be adjusted for the following transactions, which are not recorded on the consolidated statements of financial position as at year-end but were committed during the fiscal year, and will be accounted for as the physical transactions occur:

	October 3, 2020	September 28, 2019
	(US\$)	(US\$)
Gross exposure as per above	(105,274)	(76,362)
Sugar purchases priced not received	(112,742)	(85,992)
Committed future sales in U.S. dollars	185,095	139,368
Ocean freight	554	(488)
Other	(1,515)	(374)
Net exposure	(33,882)	(23,848)

The net exposure is due mainly to the Company's policy not to hedge its foreign exchange exposure on natural gas futures contracts with maturities exceeding 12 months. The impact of a 5-cent increase in the Canadian dollar would result in an increase in net earnings by \$1.3 million in 2020 (September 28, 2019 - decrease in net loss of \$0.9 million) while a decrease would have an equal but opposite effect on net earnings (loss).

Raw sugar futures sales contracts represent, in large part, futures contracts entered into when sugar is priced by a raw sugar supplier. As both the raw sugar futures sales contracts and the sugar purchases priced not received are in U.S. dollars, there is no need to economically hedge the currency, hence the reason for the adjustment for sugar purchases priced not received.

Included in other is the Taber sales formula for refined sugar, which is based on the raw sugar value that trades in U.S. dollars. As all beet sugar is paid in Canadian dollars, the raw sugar value within the Taber sales contracts is in U.S. dollars and therefore needs to be economically hedged for currency exposure.

Some sales are transacted in U.S. dollars. For these sales, the raw sugar value is not hedged, as the corresponding futures contract is also in U.S. dollars. Only the U.S. dollar refined sugar margin and ocean freight contribution are economically hedged for the currency exposure.

9. Financial instruments (continued):

Risks (continued)

(b) Currency risk (continued):

Ocean freight for raw sugar is denominated in U.S. dollars and therefore forward exchange contracts are used to cover the foreign exchange exposure.

(c) 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.

As at October 3, 2020, the Company has a short-term cash borrowing of \$29.0 million (September 28, 2019 - \$17.0 million) and a long-term cash borrowing of \$165.0 million (September 28, 2019 - \$160.0 million). The Company normally enters into a 30 - or 90-day bankers' acceptance for an amount varying between \$100.0 million to \$180.0 million of the borrowings and will borrow either under prime rate loans or shorter term bankers' acceptances for any other borrowings.

To mitigate the risk in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements from time to time (see Note 9, Financial Instruments, Derivative financial instruments, (d) interest rate swap agreements). All other borrowings over and above the aggregate notional amount of the swap agreements are therefore exposed to interest rate fluctuations.

For the fiscal year ended October 3, 2020, if interest rates had been 50 basis points higher, considering all borrowings not covered by the interest rate swap agreements, net earnings would have been \$0.4 million lower (September 28, 2019 - \$0.5 million higher net loss) while a decrease would have an equal but opposite effect on net earnings (loss).

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Risks (continued)

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	October 3, 2020	
					12 to 24 months	After 24 months
	\$	\$	\$	\$	\$	\$
Non-derivative financial liabilities:						
Bank overdraft	2,797	2,797	2,797	–	–	–
Revolving credit facility	194,000	194,000	29,000	–	–	165,000
Trade and other payables	131,089	131,089	131,089	–	–	–
Lease obligations	20,404	26,218	2,209	2,204	3,569	18,236
	348,290	354,104	165,095	2,204	3,569	183,236
Derivative financial instruments measured at fair value through profit or loss:						
Sugar futures contracts (net) ⁽ⁱ⁾	(103)	5,167	(565)	3,481	4,928	(2,677)
Forward exchange contracts (net) ⁽ⁱ⁾	(2,584)	(160,446)	(104,885)	(32,792)	(18,230)	(4,539)
Derivative financial instruments designated as effective cash flow hedging instruments:						
Natural gas contracts ⁽ⁱ⁾	1,575	40,509	3,703	3,091	8,532	25,183
Interest on swap agreements	6,729	11,583	1,341	1,314	2,660	6,268
	5,617	(103,188)	(100,406)	(24,906)	(2,110)	24,234
	353,907	250,916	64,689	(22,702)	1,459	207,470

⁽ⁱ⁾ Based on notional amounts as presented above.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Risks (continued)

(d) Liquidity risk (continued):

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	September 28, 2019	
	\$	\$	\$	\$	12 to 24 months	After 24 months
	\$	\$	\$	\$	\$	\$
Non-derivative financial liabilities:						
Bank overdraft	8,325	8,325	8,325	–	–	–
Revolving credit facility	177,000	177,000	17,000	–	–	160,000
Trade and other payables	117,731	117,731	117,731	–	–	–
Finance lease obligations	881	1,025	89	81	117	738
	303,937	304,081	143,145	81	117	160,738
Derivative financial instruments measured at fair value through profit or loss:						
Sugar futures contracts (net) ⁽ⁱ⁾	32	(4,684)	5,804	(17,368)	7,680	(800)
Forward exchange contracts (net) ⁽ⁱ⁾	(353)	(99,674)	(77,736)	(11,443)	(9,112)	(1,383)
Derivative financial instruments designated as effective cash flow hedging instruments:						
Natural gas contracts ⁽ⁱ⁾	3,558	37,863	4,256	3,565	8,498	21,544
Interest on swap agreements	1,103	9,341	939	922	1,811	5,669
	4,340	(57,154)	(66,737)	(24,324)	8,877	25,030
	308,277	246,927	76,408	(24,243)	8,994	185,768

⁽ⁱ⁾ Based on notional amounts as presented above.

The convertible unsecured subordinated debentures of \$145.8 million have been excluded from the above due to the Company's option to satisfy the obligations at redemption or maturity in shares.

The Company borrows under its revolving credit facility (see Note 16, Revolving credit facility). It is the Company's intention to keep a debt level under its revolving credit facility between \$120.0 million to \$200.0 million. All other non-derivative financial liabilities are expected to be financed through the collection of trade and other receivables and cash flows generated from operations.

9. Financial instruments (continued):

Risks (continued)

(d) Liquidity risk (continued):

Derivative financial instruments for raw sugar, natural gas and forward exchange contracts are expected to be financed from the working capital of the Company.

As at October 3, 2020, the Company had an unused available line of credit of \$71.0 million (September 28, 2019 - \$88.0 million), a cash balance of \$2.0 million (September 28, 2019 - \$0.3 million) and an overdraft balance of \$2.8 million (September 28, 2019 - \$8.3 million).

(e) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

There are two types of commodity contracts, which are entered into by the Company:

(i) Sugar:

In order to protect itself against fluctuations of the world raw sugar market, the Company follows a rigorous hedging program for all purchases of raw cane sugar and sales of refined sugar. Anytime raw sugar is priced by a sugar supplier, a corresponding sugar futures contract is sold for the same quantity, period and underlying value. Anytime refined sugar is priced by a customer, the corresponding volume of raw sugar is purchased for the same quantity, period and underlying value. The Company's policy is to cover all raw cane purchases and refined sugar sales as they are priced by the Company's suppliers and customers. On a daily basis, the Company monitors all net sugar futures contract positions against the physical priced purchases and sales commitments to ensure that appropriate hedge positions are in place.

For the Company's beet operation, the Board of Directors approved an economic pre-hedge, using sugar futures contracts, of some of the beet sugar sales that will occur in the future, provided there is a contract in place with the Alberta Sugar Beet Growers to grow sugar beets.

The Board of Directors also approved a trading book up to a maximum of 25,000 metric tonnes of sugar derivative contracts. The Board reviews on a quarterly basis the results achieved.

(ii) Natural gas:

In order to mitigate the overall price risks in the purchase of natural gas for use in the manufacturing operations, the Board approved the use of natural gas futures contracts. Natural gas futures contracts cannot be entered into for speculative reasons. The Board reviews on a quarterly basis the position of the natural gas contracts.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Risks (continued)

(e) Commodity price risk (continued):

(ii) Natural gas (continued):

As at October 3, 2020, the Company had the following commodity contracts:

	Sugar futures contracts				Natural gas contracts	
	Volume M.T.	Current average value (US\$)	Current contract value (US\$)	Contracts (10,000 MM BTU)	Current average value (US\$)	Current contract value (US\$)
Purchases	441,122	\$ 287.34	\$ 126,753	1,155	\$ 25.34	\$ 29,264
Sales	(457,024)	285.84	(130,637)	-	-	-
	(15,902)	\$ n/a	\$ (3,884)	1,155	\$ 25.34	\$ 29,264
Foreign exchange rate at the end of the period			1.3304	1.3304		
Net value CA\$			\$ (5,167)	\$ 38,933		

As at September 28, 2019, the Company had the following commodity contracts:

	Sugar futures contracts				Natural gas contracts	
	Volume M.T.	Current average value (US\$)	Current contract value (US\$)	Contracts (10,000 MM BTU)	Current average value (US\$)	Current contract value (US\$)
Purchases	333,725	\$ 282.92	\$ 94,419	1,127	\$ 22.98	\$ 25,896
Sales	(320,872)	283.24	(90,883)	-	-	-
	12,853	\$ n/a	\$ 3,536	1,127	\$ 22.98	\$ 25,896
Foreign exchange rate at the end of the period			1.3247	1.3247		
Net value CA\$			\$ 4,684	\$ 34,304		

9. Financial instruments (continued):

Risks (continued)

(e) Commodity price risk (continued):

(ii) Natural gas (continued):

If, on October 3, 2020, the raw sugar value would have increased by US\$0.05 per pound (being approximately US\$110.0 per metric tonne), and all other variables remained constant, the impact on net earnings would have been a decrease of approximately \$1.7 million (calculated only on the point-in-time exposure on October 3, 2020) (September 28, 2019 - decrease in net loss of \$1.4 million for US\$0.05 per pound increase). If the raw sugar value would have decreased by US\$0.02 per pound (being approximately US\$44.00 per metric tonne), and all other variables remained constant, the impact on net earnings would have been an increase of approximately \$0.7 million (September 28, 2019 - increase in net loss of \$0.5 million for US\$0.02 decrease).

Except for the beet pre-hedge, management believes that the above is not representative, as the Company has physical raw sugar purchases and refined sugar selling contracts that would offset most gains or losses realized from such decrease or increase in the commodity value, when such contracts are liquidated. The Company had no beet pre-hedge contracts as at October 3, 2020 nor September 28, 2019. If, on October 3, 2020, the natural gas market price would have increased by US\$1.00, and all other variables remained constant, net earnings would have increased by \$11.4 million (September 28, 2019 - decrease in net loss of \$11.0 million) as a result of the change in fair value of our natural gas futures. If the natural gas value would have decreased by US\$1.00, and all other variables remained constant, net earnings would have decreased by \$11.4 million (September 28, 2019 - increase in net loss of \$11.0 million).

Management believes that this impact for natural gas is not representative as this variance will mostly offset when the actual natural gas is purchased and used. At such time, a gain or loss on the liquidation of the natural gas contracts would mostly offset the same increase or decrease in the actual physical transaction.

Fair values of financial instruments

The fair values of derivative instruments are the estimated amount that the Company would receive or pay to terminate the instruments at the reporting date. The fair values have been determined by reference to prices available from the markets on which the instruments trade, subject to credit adjustments as applicable. The fair values of all derivative instruments approximate their carrying value and are recorded as separate line items on the consolidated statements of financial position.

9. Financial instruments (continued):

Fair values of financial instruments (continued)

The following describes the fair value determinations of financial instruments:

- i) Cash: due to the short-term maturity of these instruments, the carrying amount approximates fair value.
- ii) Trade and other receivables and trade and other payables: the carrying amount approximates fair value due to the short-term maturity of these instruments.
- iii) Borrowing under the revolving credit facility: the carrying amount approximates fair value as the borrowings bear interest at variable rates.
- iv) The fair values for the derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, natural gas prices, foreign exchange rates, and forward and spot prices for currencies.
- v) The fair value of convertible unsecured subordinated debentures was based upon market quotes for the identical instruments.
- vi) See Note 19, Lease obligations.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

9. Financial instruments (continued):

Fair values of financial instruments (continued)

The following tables provide a comparison of carrying and fair values for each classification of financial instruments at year-end, and show a level within the fair values hierarchy in which they have been classified.

	Fair values hierarchy level	October 3, 2020		September 28, 2019	
		Carrying values	Fair values	Carrying values	Fair values
		\$	\$	\$	\$
Financial assets:					
Derivative financial instruments measured at fair value through profit or loss:					
Sugar futures contracts	Level 1	103	103	-	-
Foreign exchange forward contracts	Level 2	2,584	2,584	353	353
Derivative financial instruments designated as effective cash flow hedging instruments:					
Natural gas futures contracts	Level 2	87	87	-	-
Financial assets recorded at amortized cost:					
Cash	Level 1	1,974	1,974	284	284
Trade and other receivables	n/a	94,262	94,262	85,823	85,823
Income taxes receivable	n/a	2,042	2,042	1,977	1,977
Total financial assets		101,052	101,052	88,437	88,437
Financial liabilities:					
Derivative financial instruments measured at fair value through profit or loss:					
Sugar futures contracts	Level 2	-	-	32	32
Derivative financial instruments designated as effective cash flow hedging instruments:					
Natural gas futures contracts	Level 2	1,662	1,662	3,558	3,558
Interest rate swap	Level 2	6,729	6,729	1,103	1,103
Financial liabilities recorded at amortized cost:					
Bank overdraft	Level 1	2,797	2,797	8,325	8,325
Revolving credit facility	n/a	194,000	194,000	177,000	177,000
Trade and other payables	n/a	131,089	131,089	117,731	117,731
Lease obligations	n/a	20,404	20,404	881	881
Convertible unsecured subordinated Debentures	Level 1	145,836	156,722	144,230	158,010
Total financial liabilities		502,517	513,403	452,860	466,640

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

10. Property, plant and equipment:

	Land	Buildings	Machinery and equipment	Barrels	Furniture and fixtures	Finance leases	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost or deemed cost								
Balance at								
September 29, 2018	18,089	73,468	293,688	2,589	8,240	428	15,167	411,669
Additions	–	630	1,578	36	123	897	23,725	26,989
Transfers	–	1,241	20,674	–	288	–	(22,203)	–
Disposals	–	(9)	(752)	–	(1,955)	–	–	(2,716)
Effect of movements in exchange rate	–	–	11	3	1	3	–	18
Balance at								
September 28, 2019	18,089	75,330	315,199	2,628	6,697	1,328	16,689	435,960
Transfer to right-of-use assets	–	–	–	–	–	(1,328)	–	(1,328)
Additions	–	2,655	3,481	142	359	–	20,618	27,255
Transfers	–	2,248	16,848	–	500	–	(19,596)	–
Disposals	–	–	(224)	(38)	–	–	–	(262)
Effect of movements in exchange rate	–	–	2	1	–	–	–	3
Balance at October 3, 2020	18,089	80,233	335,306	2,733	7,556	–	17,711	461,628
Depreciation								
Balance at								
September 29, 2018	–	24,284	173,009	469	4,837	171	–	202,770
Depreciation for the year	–	1,873	12,258	439	781	98	–	15,449
Disposals	–	(9)	(706)	–	(1,955)	–	–	(2,670)
Effect of movements in exchange rate	–	–	2	1	–	–	–	3
Balance at								
September 28, 2019	–	26,148	184,563	909	3,663	269	–	215,552
Transfer to right-of-use assets	–	–	–	–	–	(269)	–	(269)
Depreciation for the year	–	2,144	12,726	456	896	–	–	16,222
Disposals	–	–	(224)	(38)	–	–	–	(262)
Effect of movements in exchange rate	–	–	–	–	–	–	–	–
Balance at October 3, 2020	–	28,292	197,065	1,327	4,559	–	–	231,243
Net carrying amounts								
At September 28, 2019	18,089	49,182	130,636	1,719	3,034	1,059	16,689	220,408
At October 3, 2020	18,089	51,941	138,241	1,406	2,997	–	17,711	230,385

There were no impairment losses during fiscal 2020 and 2019.

Any grants received are offset against property, plant and equipment additions. During the year, an amount of \$0.6 million was recorded (September 28, 2019 - \$4.0 million).

All property, plant and equipment have been pledged as security for the revolving credit facility (see Note 16, Revolving credit facility).

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

11. Right-of-use assets:

	Land	Buildings	Machinery and equipment	Total
	\$	\$	\$	\$
Cost:				
Balance at September 28, 2019	–	–	–	–
Reclassification from property, plant and equipment	40	1,023	265	1,328
Additions as at September 29, 2019 (initial recognition)	–	7,159	3,876	11,035
Other Additions	–	9,383	2,435	11,818
Effect of movements in exchange rate	–	6	2	8
Balance at October 3, 2020	40	17,571	6,578	24,189
Amortization:				
Balance at September 28, 2019	–	–	–	–
Reclassification from property, plant and equipment	–	69	200	269
Depreciation for the year	–	2,712	722	3,434
Effect of movements in exchange rate	–	(3)	–	(3)
Balance at October 3, 2020	–	2,778	922	3,700
Net carrying amounts:				
At October 3, 2020	40	14,793	5,656	20,489

12. Intangible assets:

	Software	Customer relationships	Brand names ⁽¹⁾	Other	Total
	\$	\$	\$	\$	\$
Cost:					
Balance at September 29, 2018	4,061	34,542	5,871	574	45,048
Additions	172	–	–	–	172
Disposals	(203)	–	–	–	(203)
Effect of movements in exchange rate	–	81	16	–	97
Balance at September 28, 2019	4,030	34,623	5,887	574	45,114
Additions	25	–	–	–	25
Effect of movements in exchange rate	–	15	4	–	19
Balance at October 3, 2020	4,055	34,638	5,891	574	45,158
Amortization:					
Balance at September 29, 2018	2,159	3,747	–	195	6,101
Amortization for the year	279	3,465	–	28	3,772
Disposals	(203)	–	–	–	(203)
Balance at September 28, 2019	2,235	7,212	–	223	9,670
Amortization for the year	324	3,470	–	28	3,822
Balance at October 3, 2020	2,559	10,682	–	251	13,492

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

12. Intangible assets (continued):

	Software	Customer relationships	Brand names ⁽¹⁾	Other	Total
	\$	\$	\$	\$	\$
Net carrying amounts:					
At September 28, 2019	1,795	27,411	5,887	351	35,444
At October 3, 2020	1,496	23,956	5,891	323	31,666

(1) Indefinite life

13. Other assets:

	October 3, 2020	September 28, 2019
	\$	\$
Deferred financing charges, net	743	925
Other	2	3
	745	928

Deferred financing charges represent the fees and costs related to the negotiation of the 5-year credit agreement. Borrowings under the revolving credit facility are short term in nature and can be repaid at any time. Therefore, deferred financing charges are presented separately and not applied against the debt (see Note 16, Revolving credit facility).

On July 9, 2019, the Company paid \$0.1 million in financing fees to amend its existing revolving credit facility.

These fees, along with the outstanding balance of the previously deferred financing charges, are amortized over the extended life of the revolving credit facility, which now matures on June 28, 2024.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

14. Deferred tax assets and liabilities:

The deferred tax assets (liabilities) comprise the following temporary differences:

	October 3, 2020	September 28, 2019
	\$	\$
Assets:		
Employee benefits	15,213	13,267
Lease obligations	5,310	-
Derivative financial instruments	2,621	1,339
Losses carried forward	6,307	3,548
Provisions	241	435
Intangibles	79	58
Other	1,314	1,037
	31,085	19,684
Liabilities:		
Property, plant and equipment	(36,529)	(29,465)
Right-of-use assets	(5,335)	-
Derivative financial instruments	(679)	(565)
Goodwill	(2,649)	(2,537)
Deferred financing charges	(687)	(549)
Intangibles	(7,066)	(7,894)
Other	(1,342)	(1,616)
	(54,287)	(42,626)
Net assets (liabilities):		
Property, plant and equipment	(36,529)	(29,465)
Right-of-use assets	(5,335)	-
Intangibles	(6,987)	(7,836)
Employee benefits	15,213	13,267
Lease obligations	5,310	-
Derivative financial instruments	1,942	774
Losses carried forward	6,307	3,548
Goodwill	(2,649)	(2,537)
Provisions	241	435
Deferred financing charges	(687)	(549)
Other	(28)	(579)
	(23,202)	(22,942)

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

14. Deferred tax assets and liabilities (continued):

The movement in temporary differences during the current years is as follows:

	Balance September 28, 2019	Recognized in profit (loss)	Recognized in other comprehensive income (loss)	Balance October 3, 2020
Property, plant and equipment	(29,465)	(7,064)	—	(36,529)
Right-of-use assets	-	(5,335)	—	(5,335)
Intangibles	(7,836)	849	—	(6,987)
Employee benefits	13,267	444	1,502	15,213
Lease obligations	-	5,310	—	5,310
Derivative financial instruments	774	152	1,016	1,942
Losses carried forward	3,548	2,759	—	6,307
Goodwill	(2,537)	(112)	—	(2,649)
Provisions	435	(194)	—	241
Deferred financing charges	(549)	(138)	—	(687)
Other	(579)	551	—	(28)
	(22,942)	(2,778)	2,518	(23,202)

	Balance September 29, 2018	Recognized in profit (loss)	Recognized in other comprehensive income (loss)	Balance September 28, 2019
Property, plant and equipment	(29,260)	(205)	—	(29,465)
Intangibles	(8,653)	817	—	(7,836)
Employee benefits	8,330	(257)	5,194	13,267
Derivative financial instruments	(218)	(251)	1,243	774
Losses carried forward	1,518	2,030	—	3,548
Goodwill	(2,509)	(28)	—	(2,537)
Provisions	583	(148)	—	435
Deferred financing charges	(417)	(132)	—	(549)
Other	(636)	57	—	(579)
	(31,262)	1,883	6,437	(22,942)

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

15. Goodwill:

	October 3, 2020	September 28, 2019
	\$	\$
Balance, beginning of year	283,007	333,007
Goodwill impairment	-	(50,000)
Balance, end of year	283,007	283,007

Recoverability of cash generating units ("CGU"):

For the purpose of impairment testing, goodwill and intangibles with indefinite useful life are allocated to the Company's operating segments, which represent the lowest level within the Company at which the goodwill and intangibles are monitored for internal management purposes, as follows:

	October 3, 2020	September 28, 2019
	\$	\$
Sugar:		
Goodwill	229,952	229,952
Maple products:		
Goodwill	53,055	53,055
Brand names	5,891	5,887
	288,898	288,894

In assessing whether goodwill and indefinite life intangible assets are impaired, the carrying amount of the segments (including goodwill and indefinite life intangible assets) are compared to their recoverable amount. The recoverable amounts of segments are based on the higher of the value in use and fair value less costs of disposal.

Sugar segment

The Company performed the annual impairment review for goodwill and indefinite life intangible assets as at October 3, 2020, and the estimated recoverable amounts exceeded the carrying amounts of the segments and, as a result, there was no impairment identified.

The recoverable amount was based on value in use. The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

ROGERS SUGAR INC.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

15. Goodwill (continued):

	2020
	%
Pre-tax discount rate	9.9
Terminal growth rate	2.0
Budgeted EBITDA growth rate (average of next 5 years)	5.0

The discount rate was a pre-tax measure estimated based on historical industry weighted-average cost of capital adjusted for impacts on risk and taxes.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was based on management's best estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

Budgeted EBITDA was estimated taking into account past experience, adjusted to factor revenue growth for the first year based on budgeted sales volumes, and the following years taking into account the average growth levels experienced over the past 5 years and the estimated sales volumes and price growth for the next five years. It was assumed that the sales price would increase in line with forecasted inflation over the next five years.

Management has identified the two key assumptions that could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	2020
	%
Pre-tax discount rate	7.1
Budgeted EBITDA growth rate	(8.6)

Maple products segment

The Company performed the annual impairment review for goodwill and indefinite life intangible assets as at October 3, 2020, and the estimated recoverable amounts to be equal to the carrying amounts of the segments and, as a result, there was no impairment identified.

The recoverable amount was based on value in use. The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

15. Goodwill (continued):Maple products segment (continued)

	2020
	%
Pre-tax discount rate	12.3
Terminal growth rate	3.0
Budgeted EBITDA growth rate (average of next 5 years)	9.5

The discount rate was a pre-tax measure estimated based on historical industry weighted-average cost of capital adjusted for impacts on risk and taxes.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was based on management's best estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

Budgeted EBITDA was estimated taking into account past experience and was adjusted to factor revenue growth for the first year based on budgeted sales volumes, adjusted for uncertainties, and the following years taking into account the average growth levels experienced in the past and the estimated sales volumes and price growth for the next five years. It was assumed that the sales volumes would increase in line with forecasted market growth over the next five years.

16. Revolving credit facility:

On July 9, 2019, the Company exercised its option to extend the maturity date of its revolving credit facility to June 28, 2024 and made some minor amendments, which do not affect its outstanding borrowings nor its financial covenants. A total of \$0.1 million was paid in financing fees.

As a result of the amended revolving credit facility, the Company has a total of \$265.0 million of available working capital from which it can borrow at prime rate, LIBOR rate or under bankers' acceptances, plus 20 to 250 basis points, based on achieving certain financial ratios.

Certain assets of the Company, including trade receivables, inventories and property, plant and equipment, have been pledged as security for the revolving credit facility. As at October 3, 2020, a total of \$482.9 million of assets are pledged as security (September 28, 2019 - \$422.2 million).

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

16. Revolving credit facility (continued):

The following amounts were outstanding as at:

	October 3, 2020	September 28, 2019
	\$	\$
Outstanding amount on revolving credit facility:		
Current	29,000	17,000
Non-current	165,000	160,000
	194,000	177,000

The carrying value of the revolving credit facility approximates fair value as the borrowings bear interest at variable rates.

17. Trade and other payables:

	October 3, 2020	September 28, 2019
	\$	\$
Trade payables	105,894	96,150
Other non-trade payables	2,641	2,907
Personnel-related liabilities	13,236	9,238
Dividends payable to shareholders	9,318	9,440
	131,089	117,735

Considering that Maple products syrup is harvested once a year, the *Producteurs et Productrices Acericoles du Québec* ("PPAQ") offers to authorized purchasers the possibility to pay their purchases over the course of the year (ending in February). Once the syrup is graded, the Company must pay 30% of the cost of the syrup on the 15th of the following month. The outstanding balance bears interest (prime + 1%) and is paid in four monthly installments (November, December, January and February). Included in trade payables is an amount of \$61.4 million as of October 3, 2020 (September 28, 2019 - \$62.3 million).

During the year, more than 87% of the maple syrup purchases were made from the PPAQ.

Personnel-related liabilities represent the Company's obligation to its current and former employees that are expected to be settled within one year from the reporting period as salary and accrued vacation.

The Company's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 9, Financial instruments.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

18. Provisions:

	October 3, 2020	September 28, 2019
	\$	\$
Opening balance	1,697	2,205
Additions	100	70
Provisions used during the period	(860)	(578)
Closing balance	937	1,697
Presented as:		
Current	500	878
Non-current	437	819
	937	1,697

Provisions are comprised of asset retirement obligations, which represent the future cost the Company estimated to incur for the removal of asbestos in the operating facilities and for oil, chemical and other hazardous materials storage tanks for which the Company has been able to identify the costs.

The estimate of the total liability for future asset retirement obligations is subject to change, based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions would be recognized prospectively as a change in estimate, when applicable.

19. Lease obligations:

The Company's leases are primarily for warehouses, operating properties, railcars and production equipment.

The following table presents lease obligations recorded in the consolidated statement of financial position as at October 3, 2020 and September 28, 2019:

	October 3, 2020	September 28, 2019 ⁽¹⁾
Current	3,981	139
Non-current	16,423	742

⁽¹⁾ Finance lease obligations assessed under the previous standards. Refer to Note 3 (q) i).

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

19. Lease obligations (continued):

The following table summarizes the reconciliation of the lease obligations from the date of initial application until October 3, 2020:

	\$
Lease obligations as at September 28, 2019	-
Reclassification from finance lease obligations	881
Additions as at September 29, 2019 (date of initial application)	11,035
Additions during the period	11,818
Payment of lease obligations	(4,205)
Interest accretion	864
Effect of movements in exchange rate	11
Lease obligations as at October 3, 2020	20,404

Certain leases contain extension or termination options exercisable by the Company before the end of the non-cancellable contract period. The Company has applied judgement to determine the lease term for the contracts with renewal and termination options and has included renewal and termination options in the measurement of lease obligations when it is reasonably certain to exercise the options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or a significant change in circumstances which impacts the original assessments made.

Expenses relating to short-term leases, and for leases of low-value assets were not significant for the period ended October 3, 2020 (September 28, 2019 - operating leases expensed - \$5.4 million).

The total cash outflow for leases (including interest) for the period ended October 2020 was \$4.2 million, which was included as part of cash outflows from financing activities.

The lease obligations are payable as follows:

	October 3, 2020			September 28, 2019 ⁽¹⁾		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	\$	\$	\$	\$	\$	\$
Less than one year	4,405	839	3,565	170	31	139
Between one and five years	10,188	2,931	7,257	435	83	352
More than five years	11,625	2,044	9,582	420	30	390
	26,218	5,814	20,404	1,025	144	881

⁽¹⁾ Finance lease obligations assessed under the previous standards. Refer to Note 3 (q) i).

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

20. Employee benefits:

The Company sponsors defined benefit pension plans for its employees ("Pension benefit plans"), as well as health care benefits, medical plans and life insurance coverage ("Other benefit plans").

The following table presents a reconciliation of the pension obligations, the plan assets and the funded status of the benefit plans:

	October 3, 2020	September 28, 2019
	\$	\$
Fair value of plan assets:		
Pension benefit plans	103,373	105,323
Defined benefit obligation:		
Pension benefit plans	145,667	139,952
Other benefit plans	16,918	17,181
	162,585	157,133
Funded status:		
Pension benefit plans	(42,294)	(34,628)
Other benefit plans	(16,918)	(17,182)
	(59,212)	(51,810)
Experience adjustment arising on plan liabilities	2,881	19,363
Experience adjustment arising on plan assets	(3,026)	(539)

The Company has determined that, in accordance with the terms and conditions of the defined benefit pension plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans of the respective jurisdictions, the present value of refunds or reductions in the future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of the obligations. As such, no decrease in the defined benefit asset is necessary as at October 3, 2020 (September 28, 2019 - no decrease in defined benefit asset).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes at year-end. The most recent actuarial valuations of the pension plans for funding purposes were as of December 31, 2016, January 1, 2017 and December 31, 2019, the next required valuations will be as of December 31, 2022.

20. Employee benefits (continued):

The asset allocation of the major categories in the plan was as follows:

	October 3, 2020		September 28, 2019	
	%	\$	%	\$
Equity instruments	58.5	60,473	61.4	64,668
Government bonds	36.1	37,318	35.4	37,285
Cash and short-term securities	5.4	5,582	3.2	3,370
	100.0	103,373	100.0	105,323

The pension committee prepares the documentation relating to the management of asset allocation, reviews the investment policy and recommends it to the Board of Directors for approval in the event of material changes to the policy. Semi-annually monitoring of the asset allocation of the pension benefit plans allows the pension committee to ensure that the limits of asset allocation of the pension benefit plans are respected.

Based on historical data, contributions to the defined benefit pension plans in fiscal 2021 are expected to be approximately \$5.9 million.

The pension plan exposes the Company to the following risks:

(i) Investment risk:

The defined benefit obligation is calculated using a discount rate. If the fund returns are lower than the discount rate, a deficit is created.

(ii) Interest rate risk:

Variation in bond rates will affect the value of the defined benefit obligation.

(iii) Inflation risk:

The defined benefit obligation is calculated assuming a certain level of inflation. An actual inflation higher than expected will have the effect of increasing the value of the defined benefit obligation.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

20. Employee benefits (continued):

Movement in the present value of the defined benefit obligations is as follows:

	For the fiscal years ended					
	October 3, 2020			September 28, 2019		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
	\$	\$	\$	\$	\$	\$
Movement in the present value of the defined benefit obligation:						
Defined benefit obligation, beginning of the year	139,952	17,181	157,133	120,650	15,206	135,856
Current service cost	3,156	312	3,468	2,370	235	2,605
Re-measurements of other long-term benefits	-	-	-	(8)	(103)	(111)
Interest cost	4,110	498	4,608	4,587	565	5,152
Employee contributions	1,006	-	1,006	982	-	982
Benefit payments from plan	(4,947)	-	(4,947)	(5,217)	-	(5,217)
Benefit payments from employer	(919)	(645)	(1,564)	(862)	(635)	(1,497)
Actuarial gains arising from changes in demographic assumptions	(826)	(1,180)	(2,006)	-	(56)	(56)
Actuarial losses arising from changes in financial assumptions	5,255	635	5,890	17,208	2,000	19,208
Actuarial (gains) losses arising from member experience	(1,120)	117	(1,003)	242	(31)	211
Defined benefit obligation, end of year	145,667	16,918	162,585	139,952	17,181	157,133
Movement in the fair value of plan assets:						
Fair value of plan assets, beginning of the year	105,323	-	105,323	104,362	-	104,362
Interest income	3,128	-	3,128	4,022	-	4,022
Return on plan assets (excluding interest income)	(3,026)	-	(3,026)	(539)	-	(539)
Employer contributions	3,376	645	4,021	2,972	635	3,607
Employee contributions	1,006	-	1,006	982	-	982
Benefit payments from plan	(4,947)	-	(4,947)	(5,217)	-	(5,217)
Benefit payments from employer	(919)	(645)	(1,564)	(862)	(635)	(1,497)
Plan expenses	(568)	-	(568)	(397)	-	(397)
Fair value of plan assets, end of year	103,373	-	103,373	105,323	-	105,323

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

20. Employee benefits (continued):

The net defined benefit obligation can be allocated to the plans' participants as follows:

	October 3, 2020		September 28, 2019	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
	%	%	%	%
Active plan participants	49.5	41.6	47.2	43.8
Retired plan members	46.4	58.4	48.4	56.2
Deferred plan participants	4.1	-	1.3	-
Other	-	-	3.1	-
	100.0	100.0	100.0	100.0

The Company's defined benefit pension expense was as follows:

	For the fiscal years ended					
	October 3, 2020			September 28, 2019		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
	\$	\$	\$	\$	\$	\$
Pension costs recognized in net earnings (loss):						
Current service cost	3,156	312	3,468	2,370	235	2,605
Expenses related to the pension benefit plans	568	-	568	397	-	397
Net interest cost	982	498	1,480	565	565	1,130
Re-measurements of other long-term benefits	9	51	60	(8)	(103)	(111)
Pension expense	4,715	861	5,576	3,324	697	4,021
Recognized in:						
Cost of sales	4,218	580	4,798	2,802	606	3,408
Administration and selling expenses	497	281	778	522	91	613
	4,715	861	5,576	3,324	697	4,021

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

20. Employee benefits (continued):

The following table presents the change in the actuarial gains and losses recognized in other comprehensive income (loss):

	For the fiscal years ended					
	October 3, 2020			September 28, 2019		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
	\$	\$	\$	\$	\$	\$
Cumulative amount in comprehensive income (loss) at the beginning of the year	18,159	(7,041)	11,118	170	(8,954)	(8,784)
Recognized during the year	6,326	(479)	5,847	17,989	1,913	19,902
Cumulative amount in comprehensive income (loss) at the end of the year	24,485	(7,520)	16,965	18,159	(7,041)	11,118
Recognized during the year, net of tax	4,701	(356)	4,345	13,294	1,414	14,708

Principal actuarial assumptions used were as follows:

	For the fiscal years ended			
	October 3, 2020		September 28, 2019	
	Pension benefits plans	Other benefits plans	Pension benefits plans	Other benefits plans
	%	%	%	%
Company's defined benefit obligation:				
Discount rate	2.75	2.75	3.00	3.00
Rate of compensation increase	3.00	3.00	2.50	3.00
Net benefit plans expense:				
Discount rate	3.00	2.75	3.90	3.90
Rate of compensation increase	2.50	3.00	2.20	3.00

20. Employee benefits (continued):

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the value of the liabilities in the defined benefit plans are as follows:

	October 3, 2020	September 28, 2019
Longevity at age 65 for current pensioners:		
Males	22.1	22.0
Females	24.7	24.7
Longevity at age 65 for members aged 45:		
Males	23.5	23.5
Females	26.1	26.0

The assumed health care cost trend rate as at October 3, 2020 was 5.73% (September 28, 2019 - 5.67%), decreasing uniformly to 4.00% in 2040 (September 28, 2019 - 4.00% in 2040) and remaining at that level thereafter.

The following table outlines the key assumptions for the fiscal year ended October 3, 2020 and the sensitivity of a percentage change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan costs.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

20. Employee benefits (continued):

	For the fiscal year ended October 3, 2020		
	Pension benefit plans	Other benefit plans	Total
	\$	\$	\$
(Decrease) increase in Company's defined benefit obligation:			
Discount rate			
Impact of increase of 1%	(19,559)	(2,262)	(21,821)
Impact of decrease of 1%	25,133	2,962	28,095
Rate of compensation increase			
Impact of increase of 0.5%	1,472	5	1,477
Impact of decrease of 0.5%	(1,381)	(4)	(1,385)
Mortality			
99% of expected rate	374	64	438

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend would have the following effects:

	Increase	Decrease
	\$	\$
Effect on the defined benefit obligations	2,434	(1,932)

As at October 3, 2020, the weighted average duration of the defined benefit obligation amounts to 15.4 years (September 28, 2019 - 15.5 years).

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

21. Convertible unsecured subordinated debentures:

The outstanding convertible debentures are as follows:

	October 3, 2020	September 28, 2019
	\$	\$
Non-current:		
Sixth series ⁽ⁱ⁾	57,425	57,500
Seventh series ⁽ⁱⁱ⁾	97,575	97,750
Total face value	155,000	155,250
Less net deferred financing fees	(4,512)	(5,500)
Less equity component ^{(i), (ii)}	(6,930)	(6,930)
Accretion expense on equity component	2,278	1,410
Total carrying value - non-current	145,836	144,230

⁽ⁱ⁾ Sixth series:

On July 28, 2017, the Company issued \$57.5 million Sixth series, 5.00% convertible unsecured subordinated debentures ("Sixth series debentures"), maturing on December 31, 2024, with interest payable semi-annually in arrears on June 30 and December 31 of each year, starting on December 31, 2017. The debentures may be converted at the option of the holder at a conversion price of \$8.26 per share (representing 6,961,259 common shares) at any time prior to maturity, and cannot be redeemed prior to December 31, 2020.

On or after December 31, 2020 and prior to December 31, 2022, the debentures may be redeemed by the Company, at a price equal to the principal amount plus accrued and unpaid interest, only if the current market price on the day preceding the date on which the notice is given is at least 125% of the conversion price of \$8.26. Subsequent to December 31, 2022, the debentures are redeemable at a price equal to the principal amount thereof plus accrued unpaid interest.

On redemption or at maturity, the Company will repay the indebtedness of the convertible debentures by paying an amount equal to the principal amount of the outstanding convertible debentures, together with accrued and unpaid interest thereon.

The Company may, at its option, elect to satisfy its obligation to repay the principal amount of the convertible debentures, which are to be redeemed or which have matured, by issuing shares to the holders of the convertible debentures. The number of shares to be issued will be determined by dividing \$1,000 (one thousand) of principal amount of the convertible debentures by 95% of the then current market price on the day preceding the date fixed for redemption or the maturity date, as the case may be.

21. Convertible unsecured subordinated debentures (continued):

(i) Sixth series (continued):

The Company allocated \$2.6 million of the Sixth series debentures into an equity component (net of tax an amount of \$2.0 million). During the year, the Company recorded \$0.3 million (September 28, 2019 - \$0.3 million) in finance costs for the accretion of the Sixth series debentures.

The Company incurred underwriting fees and issuance costs of \$2.7 million, which are netted against the convertible debenture liability.

During fiscal 2020, holders of the Sixth series debentures converted a total of \$0.1 million into 9,079 common shares. This conversion is a non-cash transaction and therefore not reflected in the consolidated statements of cash flows.

The fair value of the Sixth series convertible unsecured subordinated debentures is measured based on Level 1 of the three-tier fair value hierarchy and was based upon market quotes for the identical instruments. The fair value as at October 3, 2020 was approximately \$58.2 million (September 28, 2019 - \$58.8 million).

(ii) Seventh series:

On March 28, 2018, in connection with a bought deal offering filed on March 21, 2018, the Company issued 85,000 Seventh series debentures, maturing on June 30, 2025 and bears interest of 4.75%, with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing on June 30, 2018 for gross proceeds of \$85.0 million. Then, on April 3, 2018, the Company issued an additional 12,750 Seventh series debentures pursuant to the exercise in full of the over-allotment option granted by the Company for gross proceeds of \$12.8 million. As a result of the over-allotment, the total amount outstanding under the Seventh series is \$97,750. The debentures may be converted at the option of the holder at a conversion price of \$8.85 per share (representing 11,045,197 common shares) at any time prior to maturity and cannot be redeemed by the Company prior to June 30, 2021.

On or after June 30, 2021 and prior to June 30, 2023, the debentures will be redeemable in whole or in part from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the weighted average trading price of the common shares, for the 20 consecutive trading days ending on the fifth trading day preceding the day prior to the date upon which the notice of redemption is given is at least 125% of the conversion price of \$8.85 per Debenture Share. On or after June 30, 2023 and prior to the maturity date, the debentures may be redeemed at a price equal to the principal amount thereof plus accrued and unpaid interest.

On redemption or on the maturity date, the Company will repay the indebtedness of the convertible debentures by paying an amount equal to the principal amount of the outstanding debentures, together with accrued and unpaid interest thereon.

21. Convertible unsecured subordinated debentures (continued):

(ii) Seventh series (continued):

The Company may, at its option, elect to satisfy its obligation to repay the principal amount of the convertible debentures, which are to be redeemed or which have matured, by issuing shares to the holders of the convertible debentures. The number of shares to be issued will be determined by dividing \$1,000 (one thousand) of principal amount of the convertible debentures by 95% of the then current market price on the day preceding the date fixed for redemption or the maturity date, as the case may be.

The Company allocated \$4.3 million (\$3.1 million net of tax) of the Seventh series debentures into an equity component. During the year, the Company recorded \$0.6 million (September 28, 2019 - \$0.5 million) in finance costs for the accretion of the Seventh series debentures.

The Company incurred underwriting fees and issuance costs of \$4.5 million, which are netted against the convertible debenture liability.

During fiscal 2020, holders of the Seventh series debentures converted a total of \$0.2 million into 19,774 common shares. This conversion is a non-cash transaction and therefore not reflected in the consolidated statements of cash flows.

The fair value of the Seventh series convertible unsecured subordinated debentures is measured based on Level 1 of the three-tier fair value hierarchy and was based upon market quotes for the identical instruments. The fair value as at October 3, 2020 was approximately \$98.6 million (September 28, 2019 - \$99.2 million).

22. Share capital and other components of equity:

On June 1, 2020, the Company received approval from the Toronto Stock Exchange to proceed with a Normal Course Issuer Bid ("2020 NCIB"), under which the Company may purchase up to 1,500,000 common shares. In addition, the Company entered into an automatic share purchase agreement with Scotia Capital Inc. in connection with the 2020 NCIB. Under the agreement, Scotia may acquire, at its discretion, common shares on the Company's behalf during certain "black-out" periods, subject to certain parameters as to price and number of shares. The 2020 NCIB commenced on June 3, 2020 and may continue to June 2, 2021. No shares were purchased under the 2020 NCIB during the year.

22. Share capital and other components of equity (continued):

On May 22, 2019, the Company received approval from the Toronto Stock Exchange to proceed with a Normal Course Issuer Bid ("2019 NCIB"), under which the Company may purchase up to 1,500,000 common shares. The 2019 NCIB commenced on May 24, 2019 and terminated on March 30, 2020, whereby all common shares had been purchased. During the year, the Company purchased 1,377,394 common shares having a book value of \$1.3 million for a total cash consideration of \$6.5 million. The excess of the purchase price over the book value of the shares in the amount of \$5.2 million was charged to deficit. During fiscal 2019, the Company purchased 122,606 common shares having a book value of \$0.1 million for a total cash consideration of \$0.6 million. The excess of the purchase price over the book value of the shares in the amount of \$0.5 million was charged to deficit. All shares purchased were cancelled.

As of October 3, 2020, a total of 103,536,923 common shares (September 28, 2019 - 104,885,464) were outstanding.

The Company declared a quarterly dividend of \$0.09 per share for fiscal years 2020 and 2019.

The following dividends were declared by the Company:

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Dividends	37,380	37,793

Contributed surplus:

The contributed surplus account is used to record amounts arising on the issue of equity-settled share-based payment awards (see Note 23, Share-based compensation).

Capital management:

The Company's objectives when managing capital are:

- To ensure proper capital investment is done in the manufacturing infrastructure to provide stability and competitiveness of the operations;
- To have stability in the dividends paid to shareholders;
- To have appropriate cash reserves on hand to protect the level of dividends made to shareholders;
- To maintain an appropriate debt level so that there is no financial constraint on the use of capital;
- To have an appropriate line of credit, and;
- To repurchase shares or convertible debentures when the Board of Directors considers trading values do not reflect fair values.

22. Share capital and other components of equity (continued):

Capital management (continued):

The Company typically invests in its operations approximately \$20.0 million yearly in capital expenditures. On an exceptional basis, the Company may invest more than \$20.0 million when special capital requirements arise. Management believes that these investments, combined with approximately \$30.0 to \$40.0 million spent on average annually on maintenance expenses, allow for the stability of the manufacturing operations and improve its cost competitiveness through new technology or process procedures.

The Board of Directors aims to ensure proper cash reserves are in place to maintain the current dividend level. Dividends to shareholders will only be raised after the Directors have carefully assessed a variety of factors that include the overall competitive landscape, volume and selling margin sustainability, the operating performance and capital requirements of the manufacturing plants and the sustainability of any increase.

The Company has a \$265.0 million revolving credit facility. The Company estimates to use between \$120.0 million and \$200.0 million of its revolving credit facility to finance its normal operations during the year.

The Company monitors, on a quarterly basis, the ratio of total debt to earnings before interest, income taxes, depreciation and amortization, adjusted for the impact of all derivative financial instruments ("adjusted EBITDA") of the operating company. Through required lenders' covenants, the debt ratio must be kept below 3.5:1. At year-end, the operating company's debt ratio was 2.09:1 for fiscal 2020 and 1.96:1 for fiscal 2019.

Having satisfied the above factors, if cash is available, it will be used to repurchase the Company's shares and convertible debentures when the Board of Directors considers that the current trading range does not reflect the fair trading value of the Company's shares. As such, the Company puts in place a NCIB from time to time.

The Company does not use equity ratios to manage its capital requirements.

23. Share-based compensation:

(a) Equity-settled share-based compensation:

The Company currently has a share option plan that was established in 2011 and amended in 2015. Under this plan, the Company has set aside 4,000,000 common shares to be granted to key personnel. As at October 3, 2020, a total of 3,535,997 options had been granted at exercise prices ranging between \$4.28 per share and \$6.51 per share. These share options are exercisable to a maximum of twenty percent per year, starting after the first anniversary date of the granting of the options and will expire after a term of ten years.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

23. Share-based compensation (continued):

(a) Equity-settled share-based compensation (continued):

Compensation expense is amortized over the vesting period of the corresponding optioned shares and is expensed in the administration and selling expenses with an offsetting credit to contributed surplus. An expense of \$168 was incurred for the fiscal year ended October 3, 2020 (September 28, 2019 - \$190).

The following table summarizes information about the Share Option Plan as of October 3, 2020:

Exercise price per option	Outstanding number of options at September 28, 2019	Options granted during the period	Options forfeited during the period	Options exercised during the period	Outstanding number of options at October 3, 2020	Weighted average remaining life	Number of options exercisable
\$4.28	-	250,000	-	-	250,000	9.46	-
\$4.59	830,000	-	-	-	830,000	4.64	830,000
\$4.68	-	563,500	-	-	563,500	9.16	-
\$5.58	447,175	-	-	-	447,175	8.17	89,435
\$5.61	80,000	-	-	-	80,000	1.46	80,000
\$6.23	1,005,322	-	-	-	1,005,322	7.17	402,129
\$6.51	360,000	-	-	-	360,000	6.17	216,000
	2,722,497	813,500	-	-	3,535,997	n/a	1,617,564

The following table summarizes information about the Share Option Plan as of September 28, 2019:

Exercise price per option	Outstanding number of options at September 29, 2018	Options granted during the period	Options forfeited during the period	Options exercised during the period	Outstanding number of options at September 28, 2019	Weighted average remaining life	Number of options exercisable
\$4.59	830,000	-	-	-	830,000	5.65	660,000
\$5.58	-	447,175	-	-	447,175	9.18	-
\$5.61	80,000	-	-	-	80,000	2.48	80,000
\$6.23	1,005,322	-	-	-	1,005,322	8.18	201,064
\$6.51	360,000	-	-	-	360,000	7.19	144,000
	2,275,322	447,175	-	-	2,722,497	n/a	1,085,064

Options outstanding held by key management personnel amounted to 2,915,997 options as at October 3, 2020 and 2,102,497 options as at September 28, 2019 (see Note 28, Key management personnel).

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

23. Share-based compensation (continued):

(a) Equity-settled share-based compensation (continued):

The measurement date fair values were measured based on the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted in the first quarter of fiscal 2020 are the following:

Total fair value of options at grant date	\$106
Share price at grant date	\$4.81
Exercise price	\$4.68
Expected volatility (weighted average volatility)	15.984% to 16.870%
Option life (expected weighted average life)	4 to 6 years
Expected dividends	7.48%
Weighted average risk-free interest rate (based on government bonds)	1.641% to 1.660%

The inputs used in the measurement of the fair values of the share-based payment plans granted in the second quarter of fiscal 2020 are the following:

Total fair value of options	\$26
Share price	\$4.24
Exercise price	\$4.28
Expected volatility (weighted average volatility)	16.872% to 17.949%
Option life (expected weighted average life)	4 to 6 years
Expected dividends	8.49%
Weighted average risk-free interest rate (based on government bonds)	0.714% to 0.763%

23. Share-based compensation (continued):

(b) Cash-settled share-based compensation:

(i) Performance Share Units ("PSU"):

Fiscal 2020 grant:

On December 2, 2019, a total of 324,932 PSUs were granted to certain executives. In addition, an aggregate of 18,734 PSUs at a weighted-average share price of \$4.78 were allocated as a result of the dividend paid during the quarters since inception, as the participants also receive dividend equivalents paid in the form of PSUs. As at October 3, 2020, an aggregate of 343,666 PSUs was outstanding. These PSUs will vest at the end of the 2020-2022 Performance Cycle based on the achievement of total shareholder returns set by the Human Resources and Compensation Committee ("HRCC") and the Board of Directors of the Company. Following the end of a Performance Cycle, the Board of Directors of the Company will determine, and to the extent only that the Vesting Conditions include financial conditions, concurrently with the release of the Company's financial and/or operational results for the fiscal year ended at the end of the Performance Cycle, whether the Vesting Conditions for the PSUs granted to a participant relating to such Performance Cycle have been achieved. Depending on the achievement of the Vesting Conditions, between 0% and 200% of the PSUs will become vested.

The Board of Directors of the Company has the discretion to determine that all or a portion of the PSUs granted to a participant for which the Vesting Conditions have not been achieved shall vest to such participant.

The value to be paid-out to each participant will be equal to the result of: the number of PSUs granted to the participant which have vested, multiplied by the volume weighted average closing price of the Common Shares on the Toronto Stock Exchange (the "TSX") for the five trading days immediately preceding the day on which the Company shall pay the value to the participant under the PSU Plan, and such date will in no event occur after December 31 of the third calendar year following the calendar year in which the PSUs are granted.

The fair values were established using the Monte Carlo model. The fair value as at grant date was \$64 and \$89 as at October 3, 2020. An expense of \$19 was recorded for the period ending October 3, 2020 in administration and selling expenses. The liabilities arising from the PSUs as at October 3, 2020 were \$19.

23. Share-based compensation (continued):

(b) Cash-settled share-based compensation (continued):

(i) Performance Share Units ("PSU") (continued):

Fiscal 2019 grant:

On December 3, 2018, an aggregate of 290,448 PSUs was granted by the Company. In addition, an aggregate of 36,717 PSUs at a weighted-average share price of \$5.29 were allocated as a result of the dividend paid during the quarters since inception, as the participants also receive dividend equivalents paid in the form of PSUs. As at October 3, 2020, an aggregate of 327,165 PSUs was outstanding. These PSUs will vest at the end of the 2019-2021 Performance Cycle.

The fair values were established using the Monte Carlo model. The fair value as at grant date was \$308 and \$43 as at October 3, 2020 (September 28, 2019 - \$35). An expense of \$15 was recorded for the period ending October 3, 2020 (September 28, 2019 - \$7) in administration and selling expenses. The liabilities arising from the PSUs as at October 3, 2020 were \$22 (September 28, 2019 - \$7).

Fiscal 2018 grant:

On December 4, 2017, an aggregate of 224,761 PSUs was granted by the Company. In addition, an aggregate of 44,372 PSUs at a weighted-average share price of \$5.50 were allocated as a result of the dividend paid during the quarters since inception, as the participants also receive dividend equivalents paid in the form of PSUs. As at October 3, 2020, an aggregate of 269,133 PSUs was outstanding. These PSUs will vest at the end of the 2018-2020 Performance Cycle.

The fair value as at October 3, 2020 was nil (September 28, 2019 - nil). An expense of nil was recorded for the period ending October 3, 2020 (September 28, 2019 - nil) in administration and selling expenses. The liabilities arising from the PSUs as at October 3, 2020 were nil (September 28, 2019 - nil).

24. Commitments:

As at October 3, 2020, the Company had commitments to purchase a total of 1,496,000 metric tonnes of raw cane sugar (September 28, 2019 - 1,057,000), of which 383,574 metric tonnes had been priced (September 28, 2019 - 283,162), for a total dollar commitment of \$150.0 million (September 28, 2019 - \$113.9 million). In addition, the Company has a commitment of approximately \$22.9 million (September 28, 2019 - \$25.0 million) for sugar beets to be harvested and processed in fiscal 2020.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

24. Commitments (continued):

TMTC has \$4.1 million (September 28, 2019 - \$8.8 million) remaining to pay related to an agreement to purchase approximately \$12.2 million (4.0 million pounds) (September 28, 2019 - \$13.9 million; 4.3 million pounds) of maple syrup from the PPAQ. In order to secure bulk syrup purchases, the Company issued letters of guarantee for a total amount of \$14.5 million in favor of the PPAQ (September 28, 2019 - \$17.3 million). The letters of guarantee expire on February 28, 2021.

During the fiscal year ended October 3, 2020, the Company entered into capital commitments to complete its capital projects for a total value of \$23.6 million (September 28, 2019 - \$19.0 million).

25. Contingencies:

The Company, in the normal course of business, becomes involved from time to time in litigation and claims. While the final outcome with respect to claims and legal proceedings pending as at October 3, 2020 cannot be predicted with certainty, management believes that no provision was required and that the financial impact, if any, from claims related to normal business activities will not be material.

26. Earnings (Loss) per share:

Reconciliation between basic and diluted earnings (loss) per share is as follows:

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Basic earnings (loss) per share:		
Net earnings (loss)	35,419	(8,167)
Weighted average number of shares outstanding	103,973,735	104,997,204
Basic earnings (loss) per share	0.34	(0.08)
Diluted earnings (loss) per share:		
Net earnings (loss)	35,419	(8,167)
Plus impact of convertible unsecured subordinated debentures and share options	2,348	-
	37,767	(8,167)
Weighted average number of shares outstanding:		
Basic weighted average number of shares outstanding	103,973,735	104,997,204
Plus impact of convertible unsecured subordinated debentures and share options	6,952,179	-
	110,925,914	104,997,204
Diluted earnings (loss) per share	0.34	(0.08)

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

26. Earnings (Loss) per share (continued):

As at October 3, 2020, the share options and the Seventh series debentures, representing 11,025,424 common shares, were excluded from the calculation of diluted earnings per share as they were deemed anti-dilutive. As at September 28, 2019, the share options, the Sixth series debentures, representing 6,961,259 common shares and the Seventh series debentures, representing 11,045,198 common shares, were excluded from the calculation of diluted loss per share as they were deemed anti-dilutive.

27. Supplementary cash flow information:

	October 3, 2020	September 28, 2019	September 29, 2018
	\$	\$	\$
Non-cash transactions:			
Additions of property, plant and equipment and intangible assets included in trade and other payables	1,239	294	1,041

28. Key management personnel:

The Board of Directors as well as the executive team, which include the President and all the Vice-Presidents, are deemed to be key management personnel of the Company. The following is the compensation expense for key management personnel:

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Salaries and short-term benefits	3,989	2,281
Attendance fees for members of the Board of Directors	962	883
Post-employment benefits	164	111
Share-based compensation (note 23)	194	195
	5,309	3,470

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

29. Personnel expenses (continued):

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Wages, salaries and employee benefits	98,887	86,806
Expenses related to defined benefit plans (note 20)	5,576	4,021
Expenses related to defined contributions plans	5,615	4,815
Share-based compensation (note 23)	194	195
	110,272	95,837

The personnel expenses were charged to the consolidated statements of earnings (loss) and comprehensive income (loss) or capitalized in the consolidated statements of financial position as follows:

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Cost of sales	89,046	78,972
Administration and selling expenses	19,445	14,928
Distribution expenses	1,494	1,582
	109,985	95,482
Property, plant and equipment	287	355
	110,272	95,837

30. Related parties:

Lantic has outstanding redeemable Class B special shares of \$44.5 million that are retractable and can be settled at Lantic's option by delivery of a note receivable from Belkorp Industries Inc., having the same value. The note receivable bears no interest and has no fixed terms of repayment. The Class B special shares are entitled to vote, but on a pro rata basis at a meeting of shareholders of Lantic. Under the terms of a voting trust agreement between Belkorp Industries Inc. and Rogers, Rogers is entitled to vote the Class B special shares so long as they remain outstanding. Due to the fact that Lantic has the intent and the legal right to settle the note receivable with the redeemable Class B special shares, these amounts have been offset and, therefore, are not presented on the consolidated statements of financial position.

Belkorp Industries Inc. also controls, through Lantic Capital, the two Lantic Class C shares issued and outstanding. The Class C shares entitle Lantic Capital to elect five of the seven directors of Lantic, but have no other voting rights at any meetings of shareholders of Lantic, except as may be required by law.

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

31. Segmented information:

The Company has two operating and reportable segments, sugar and maple products. The principal business activity of the sugar segment is the refining, packaging and marketing of sugar products. The Maple products segment processes pure maple syrup and related maple products. The reportable segments are managed independently as they require different technology and capital resources. Performance is measured based on the segments' gross margins and results from operating activities. These measures are included in the internal management reports that are reviewed by the Company's President and CEO, and management believes that such information is the most relevant in the evaluation of the results of the segments.

Transactions between reportable segments are interest receivable (payable), which are eliminated upon consolidation.

	For the fiscal year ended October 3, 2020			
	Sugar	Maple products	Corporate and eliminations	Total
	\$	\$	\$	\$
Revenues	631,263	229,538	-	860,801
Cost of sales	526,175	208,427	-	734,602
Gross margin	105,088	21,111	-	126,199
Depreciation and amortization	16,890	6,588	-	23,478
Results from operating activities	62,382	7,147	(1,519)	68,010
Additions to property, plant and equipment and intangible assets, net of disposals	20,711	6,569	-	27,280
Additions to right-of-use assets	14,550	8,303	-	22,853

	For the fiscal year ended October 3, 2020			
	Sugar	Maple products	Corporate and eliminations	Total
	\$	\$	\$	\$
Total assets	798,179	255,242	(166,277)	887,144
Total liabilities	(969,021)	(270,230)	622,298	(616,953)

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Notes to consolidated financial statements (continued)

(In thousands of dollars except as noted and per share amounts)

31. Segmented information (continued):

	Sugar	Maple products	Corporate and eliminations	Total
	\$	\$	\$	\$
Revenues	595,878	198,414	-	794,292
Cost of sales	495,577	176,140	-	671,717
Gross margin	100,301	22,274	-	122,575
Depreciation and amortization	15,449	3,772	-	19,221
Results from operating activities	66,868	(41,392)	(1,329)	24,147
Additions to property, plant and equipment and intangible assets, net of disposals	22,647	4,468	-	27,115

	Sugar	Maple products	Corporate and eliminations	Total
	\$	\$	\$	\$
Total assets	768,949	231,659	(165,580)	835,028
Total liabilities	(934,300)	(241,665)	626,369	(549,596)

Revenues were derived from customers in the following geographic areas:

	For the fiscal years ended	
	October 3, 2020	September 28, 2019
	\$	\$
Canada	637,781	611,633
United States	142,888	109,655
Europe	44,368	34,633
Other	35,764	38,371
	860,801	794,292

Substantially all of the non-current assets are located in Canada.