Consolidated financial statements

Ag Growth International Inc.

December 31, 2019

Independent auditor's report

To the Shareholders of
Ag Growth International Inc.

Opinion

We have audited the consolidated financial statements of **Ag Growth International Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2019 and 2018, 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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical 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.

Other information

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

- Management's Discussion and Analysis
- The information other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Tanis Petreny.

Ernst & Young LLP

Winnipeg, Canada
March 24, 2020

Chartered Professional Accountants

Ag Growth International Inc.

Consolidated statements of financial position

[in thousands of Canadian dollars]

As at December 31

	2019 $	2018 $
Assets *[note 20]*		
Current assets		
Cash and cash equivalents *[note 29]*	48,421	33,610
Cash held in trust and restricted cash *[notes 6 and 7]*	5,416	2,955
Accounts receivable *[note 8]*	162,543	134,239
Inventory *[note 9]*	174,356	190,887
Prepaid expenses and other assets	34,333	26,031
Current portion of note receivable	97	85
Derivative instruments *[note 30]*	5,865	7,649
Income taxes recoverable	7,425	4,344
	438,456	399,800
Non-current assets		
Property, plant and equipment, net *[note 10]*	363,678	332,645
Right-of-use assets, net *[note 11]*	9,353	—
Goodwill *[note 12]*	351,573	256,619
Intangible assets, net *[note 13]*	264,858	233,199
Investment in associate *[note 15[b]]*	17,312	—
Equity investment *[note 15[a]]*	—	900
Non-current accounts receivable *[note 8]*	16,182	8,122
Note receivable	525	650
Deferred tax asset *[note 27]*	—	455
	1,023,481	832,590
Assets held for sale *[note 16]*	1,043	1,169
Total assets	1,462,980	1,233,559
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *[note 17]*	105,378	101,504
Customer deposits	39,583	47,941
Dividends payable	3,732	3,673
Income taxes payable	2,010	4,286
Current portion of due to vendor *[note 6]*	4,541	7,973
Current portion of contingent consideration *[note 6]*	5,270	4,552
Current portion of obligations under finance lease	—	65
Current portion of lease liability *[note 19]*	2,562	—
Current portion of long-term debt *[note 20]*	693	289
Current portion of convertible unsecured subordinated debentures *[note 21]*	74,298	50,708
Provisions *[note 18]*	17,539	7,685
	255,606	228,676
Non-current liabilities		
Other financial liabilities *[note 26]*	484	85
Due to vendor *[note 6]*	3,829	1,376
Contingent consideration *[note 6]*	—	1,834
Optionally convertible redeemable preferred shares *[note 6]*	26,320	—
Obligations under finance lease	—	165
Lease liability *[note 19]*	6,787	—
Long-term debt *[note 20]*	392,435	271,132
Convertible unsecured subordinated debentures *[note 21]*	164,535	234,140
Senior unsecured subordinated debentures *[note 22]*	165,474	—
Deferred tax liability *[note 27]*	74,115	61,952
	833,979	570,684
Total liabilities	1,089,585	799,360
Shareholders' equity *[note 23]*		
Common shares	455,857	450,645
Accumulated other comprehensive income	22,375	57,324
Equity component of convertible debentures	6,707	8,203
Contributed surplus	27,113	26,045
Deficit	(138,657)	(108,018)
Total shareholders' equity	373,395	434,199
Total liabilities and shareholders' equity	1,462,980	1,233,559

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert
Director

(signed) David A. White, CA, ICD.D
Director

Ag Growth International Inc.

Consolidated statements of income

[in thousands of Canadian dollars, except per share amounts]

Years ended December 31

	2019	2018
	$	$
Sales	995,787	931,664
Cost of goods sold *[note 25[d]]*	728,047	663,505
Gross profit	267,740	268,159
Expenses (income)		
Selling, general and administrative *[note 25[e]]*	211,113	175,914
Other operating income *[note 25[a]]*	(2,238)	(21)
Impairment charge *[notes 10 and 16]*	233	232
Finance costs *[note 25[c]]*	44,793	37,067
Finance expense (income) *[note 25[b]]*	(6,917)	16,403
Share of associate's net loss *[note 15[b]]*	2,352	—
	249,336	229,595
Profit before income taxes	18,404	38,564
Income tax expense (recovery) *[note 27]*		
Current	5,521	10,517
Deferred	(1,750)	1,429
	3,771	11,946
Profit for the year	14,633	26,618
Profit per share *[note 28]*		
Basic	0.79	1.58
Diluted	0.77	1.56

See accompanying notes

Ag Growth International Inc.

Consolidated statements of comprehensive income (loss)

[in thousands of Canadian dollars]

Years ended December 31

	2019	2018
	$	$
Profit for the year	14,633	26,618
Other comprehensive (loss) income		
Items that may be reclassified subsequently to profit or loss		
Change in fair value of derivatives designated as cash flow hedges	—	1,025
Gains on derivatives designated as cash flow hedges recognized in net earnings in the year	—	(2,785)
Income tax effect on cash flow hedges	—	477
Exchange differences on translation of foreign operations	(34,080)	28,799
	(34,080)	27,516
Items that will not be reclassified to profit or loss		
Change in the fair value of equity investment	(900)	—
Actuarial gains on defined benefit plan	43	233
Income tax effect on defined benefit plan	(12)	(63)
	(869)	170
Other comprehensive income (loss) for the year	(34,949)	27,686
Total comprehensive income (loss) for the year	(20,316)	54,304

See accompanying notes

Consolidated statements of changes in shareholders' equity

[in thousands of Canadian dollars]

	Common shares $	Equity component of convertible debentures $	Contributed surplus $	Deficit $	Foreign currency reserve $	Equity investment $	Defined benefit plan reserve $	Total shareholders' equity $
As at January 1, 2019	450,645	8,203	26,045	(108,018)	57,417	—	(93)	434,199
Profit for the year	—	—	—	14,633	—	—	—	14,633
Other comprehensive income (loss)	—	—	—	—	(34,080)	(900)	31	(34,949)
Share-based payment transactions *[notes 23[a]] and 23[b]]*	5,187	—	(82)	—	—	—	—	5,105
Dividends paid to shareholders *[note 23[d]]*	—	—	—	(44,705)	—	—	—	(44,705)
Dividends on share-based compensation awards *[note 23[d]]*	—	—	—	(567)	—	—	—	(567)
Conversion of convertible unsecured subordinated debentures *[note 21]*	25	—	—	—	—	—	—	25
Redemption of convertible unsecured subordinated debentures *[note 21]*	—	(1,496)	1,150	—	—	—	—	(346)
As at December 31, 2019	455,857	6,707	27,113	(138,657)	23,337	(900)	(62)	373,395

See accompanying notes

Ag Growth International Inc.

Consolidated statements of changes in shareholders' equity

[in thousands of Canadian dollars]

	Common shares $	Equity component of convertible debentures $	Contributed surplus $	Deficit $	Cash flow hedge reserve $	Foreign currency reserve $	Defined benefit plan reserve $	Total shareholders' equity $
As at January 1, 2018	323,199	9,903	20,956	(92,842)	1,283	28,618	(263)	290,854
Profit for the year	—	—	—	26,618	—	—	—	26,618
Other comprehensive income (loss)	—	—	—	—	(1,283)	28,799	170	27,686
Share-based payment transactions *[notes 23[a]] and 23[b]]*	5,820	—	1,956	—	—	—	—	7,776
Dividend reinvestment plan *[note 23[d]]*	1,384	—	—	—	—	—	—	1,384
Dividends to shareholders *[note 23[d]]*	—	—	—	(40,650)	—	—	—	(40,650)
Dividends on share-based compensation awards *[note 23[d]]*	—	—	—	(1,144)	—	—	—	(1,144)
Common share issuance *[note 23[a]]*	111,564	—	—	—	—	—	—	111,564
Issuance of convertible unsecured subordinated debentures *[note 21]*	—	1,433	—	—	—	—	—	1,433
Conversion of convertible unsecured subordinated debentures *[note 21]*	8,678	—	—	—	—	—	—	8,678
Redemption of convertible unsecured subordinated debentures *[note 21]*	—	(3,133)	3,133	—	—	—	—	—
As at December 31, 2018	450,645	8,203	26,045	(108,018)	—	57,417	(93)	434,199

See accompanying notes

Ag Growth International Inc.

Consolidated statements of cash flows

[in thousands of Canadian dollars]

Years ended December 31

	2019	2018
	$	$
Operating activities		
Profit before income taxes	18,404	38,564
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	22,431	19,200
Depreciation of right-of-use assets	3,027	—
Amortization of intangible assets	22,730	13,831
Loss on sale of property, plant and equipment	260	193
Gain on disposal of assets held for sale *[note 16]*	—	(8)
Impairment charge *[notes 10 and 16]*	233	232
Share of associate's net loss	2,352	—
Gain on redemption of convertible debenture	(55)	—
Non-cash component of interest expense	6,485	6,206
Non-cash movement in derivative instruments	1,793	2,061
Non-cash investment tax credits	(226)	—
Share-based compensation expense	5,968	8,004
Employer contribution to defined benefit plan	(27)	—
Defined benefit plan expense	131	135
Contingent consideration	7,267	4,284
Equipment provided to vendor	—	(115)
Translation loss (gain) on foreign exchange	(16,262)	27,771
	74,511	120,358
Net change in non-cash working capital balances related to operations *[note 29]*	(13,585)	(63,017)
Non-current accounts receivable	(8,060)	(3,942)
Long-term payables	—	(280)
Settlement of EIAP obligation	(2,553)	(1,953)
Income taxes paid	(9,894)	(9,975)
Cash provided by operating activities	40,419	41,191
Investing activities		
Acquisition of property, plant and equipment	(48,539)	(36,549)
Acquisitions, net of cash acquired *[note 6]*	(112,619)	(50,266)
Investment in associate	(19,720)	—
Transfer from restricted cash	(3,274)	(784)
Proceeds from sale of property, plant and equipment	792	952
Proceeds from sale of assets held for sale *[note 16]*	—	2,427
Development and purchase of intangible assets	(13,257)	(7,397)
Transaction costs paid and payable	(26,517)	2,982
Cash used in investing activities	(223,134)	(88,635)
Financing activities		
Issuance of long-term debt, net of issuance costs *[note 20[b]]*	203,329	165,098
Repayment of long-term debt	(72,563)	(215,851)
Repayment of obligation under lease liabilities	(2,674)	—
Repayment of obligation under finance lease	—	(1,064)
Change in obligation under finance lease	—	192
Change in interest accrued	464	(7,522)
Issuance of senior unsecured subordinated debentures, net of issuance costs	165,402	—
Issuance of convertible unsecured subordinated debentures, net of issuance costs	—	82,293
Redemption of convertible unsecured subordinated debentures *[note 21]*	(51,786)	(77,477)
Common share issuance, net of issuance costs	—	110,670
Dividends paid in cash *[note 23[d]]*	(44,646)	(39,266)
Cash provided by financing activities	197,526	17,073
Net increase (decrease) in cash and cash equivalents during the year	14,811	(30,371)
Cash and cash equivalents, beginning of year	33,610	63,981
Cash and cash equivalents, end of year	48,421	33,610
Supplemental cash flow information		
Interest paid	37,442	36,393

See accompanying notes

December 31, 2019

1. Organization

The consolidated financial statements of Ag Growth International Inc. ["AGI" or the "Company"] for the year ended December 31, 2019 were authorized for issuance in accordance with a resolution of the directors on March 24, 2020. AGI is a listed company incorporated and domiciled in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

2. Operations

AGI is a provider of solutions for the global food infrastructure, including seed, fertilizer, grain, rice, feed, and food processing systems. AGI has manufacturing facilities in Canada, the United States, the United Kingdom, Brazil, Italy, France, and India and distributes its product globally.

Included in these consolidated financial statements are the accounts of AGI and all its subsidiaries and incorporated companies [together, Ag Growth International Inc. and its subsidiaries are referred to as "AGI" or the "Company"].

3. Summary of significant accounting policies

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"].

Basis of preparation

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company, Ag Growth International Inc. All values are rounded to the nearest thousand. They are prepared on the historical cost basis, except for derivative financial instruments, assets held for sale, equity investments, and contingent consideration resulting from business combinations, which are measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Ag Growth International Inc. and its subsidiaries, Ag Growth Holdings Corp., AGI Alpha Holdings Corp., AGI Bravo Holdings Corp., AGI Charlie Holdings Corp., AGI Solutions Inc., AGI France Agricultural Equipment S.A.S., AGI Agricultural Equipment Proprietary Limited, Ag Growth International Australia PTY Ltd., Westfield Distributing (North Dakota) Inc., Hansen Manufacturing Corp. ["Hi Roller"], Improtech Ltd., Union Iron Inc. ["Union Iron"], Airlanco Inc. ["Airlanco"], Tramco, Inc. ["Tramco"], Tramco Europe Limited, Euro-Tramco B.V., AGI Netherlands B.V., Ag Growth Suomi Oy, Ag Growth Scandinavia, AGI Comercio de Equipamentos E Montagens Ltda, AGI EMEA S.R.L., AGI Brasil Industria e Comercio S.A., Mitchell Mill Systems USA Inc., Yargus Manufacturing, Inc., Global Industries, Inc., CMC Industrial Electronics

Ltd., CMC Industrial Electronics USA, Inc. Junge Control Inc., Danmare Group Inc. and its affiliate Danmare, Inc. [collectively, "Danmare"], Sabe S.A.S., Z-AGI Agricultural Equipment (India) Private Limited, Milltec Machinery Limited, and AGI Suretrack LLC as at December 31, 2019. Subsidiaries are fully consolidated from the date of acquisition, it being the date on which AGI obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations are expensed and included in selling, general and administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

Goodwill is initially measured at cost, being the excess of the cost of the business combination over AGI's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any negative difference is recognized directly in the consolidated statements of income. If the fair values of the assets, liabilities and contingent liabilities can only be calculated on a provisional basis, the business combination is recognized using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within 12 months of the date of acquisition ["measurement period"].

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of AGI's cash-generating units or groups of cash-generating units ["CGUs"] that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those CGUs. Where goodwill forms part of a CGU or group of CGUs and part of the operating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of operation. If the Company reorganizes its reporting structure in a way that changes the composition of one or more CGUs or group of CGUs to which goodwill has been allocated, the goodwill is reallocated to the units affected. Goodwill disposed of or reallocated in these cases is measured based on the relative values of the operation disposed of and the portion of the CGU retained, or the relative fair value of the part of a CGU allocated to a new CGU compared to the part remaining in the old organizational structure.

Foreign currency translation

Each entity in AGI determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by AGI entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary items are translated at the functional currency spot rate as of the reporting date. Exchange differences from monetary items are recognized in the consolidated statements of income. Non-monetary items that are not carried at fair value are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their consolidated statements of income are translated at the monthly rates of exchange. The exchange differences arising on the translation are recognized in other comprehensive income ["OCI"]. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to the consolidated statements of income when the gain or loss on disposal is recognized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the reporting date.

Cash and cash equivalents

All highly liquid temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash, net of outstanding bank overdrafts.

Inventory

Inventory comprises raw materials and finished goods. Inventory is valued at the lower of cost and net realizable value, at average cost. For finished goods, costs include all direct costs incurred in production, including direct labour and materials, freight, directly attributable manufacturing overhead costs based on normal operating capacity and property, plant and equipment depreciation.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of any accumulated depreciation and any impairment losses determined. Cost includes the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary and, where relevant, the present value of all dismantling and removal costs. Where major components of property, plant and equipment have different useful lives, the components are recognized and depreciated separately. AGI recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, and if it is probable that the future economic benefits embodied with the item can be reliably measured. All other repair and maintenance costs are recognized in the consolidated statements of income as an expense when incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and building components	20 – 60 years
Manufacturing equipment	10 – 20 years
Computer hardware	5 years
Leasehold improvements	Over the lease period
Furniture and fixtures	5 – 10 years
Vehicles	4 – 16 years

An item of property, plant and equipment and any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statements of income when the asset is derecognized.

The assets' useful lives and methods of depreciation of assets are reviewed at each financial year-end, and adjusted prospectively, if appropriate. No depreciation is taken on construction in progress until the asset is placed in use. Amounts representing direct costs incurred for major overhauls are capitalized and depreciated over the estimated useful lives of the different components replaced.

Leases

Effective January 1, 2019, the Company adopted IFRS 16 and the following are the policies for leases:

At inception of a contract, AGI assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset, which may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative stand-alone prices. For leases of land and buildings, the lease and non-lease components are accounted for as a single lease component as permitted within IFRS 16.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in rates, the amount expected to be payable under a residual value guarantee, or the Company's assessment of whether it will exercise a purchase, extension or termination option. Upon remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

For short-term leases [12 months or less] and leases of low-value assets, the Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Prior to January 1, 2019, the Company's policies under IAS 17 were as follows:

The determination of whether an arrangement is, or contains, a lease is based on whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Finance leases, which transfer to AGI substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of income (loss).

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that AGI will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in selling, general and administrative expense in the consolidated statements of income on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time, which AGI considers to be 12 months or more, to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives, which include brand names, are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Internally generated intangible assets are capitalized when the product or process is technically and commercially feasible and AGI has sufficient resources to complete development. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Expenditures incurred to develop new demos and prototypes are recorded at cost as internally generated intangible assets. Amortization of the internally generated intangible assets begins when the development is complete and the asset is available for use and it is amortized over the period of expected future benefit. Amortization is recorded in cost of goods sold. During the period of development, the asset is tested for impairment at least annually.

Finite-life intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

Patents	4 – 10 years
Distribution networks and customer relationships	8 – 25 years
Development projects	3 – 15 years
Order backlog	3 – 6 months
Non-compete agreement	7 years
Software	5 – 8 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

AGI's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statements of income reflect the Company's share of the results of operations of the associate. Any change in OCI of the associate is presented as part of AGI's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between AGI and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company's share of profit or loss of an associate is shown on the face of the consolidated statements of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of AGI.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within share of associate's net income (loss) in the consolidated statements of income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Impairment of non-financial assets

AGI assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual testing for an asset is required, AGI estimates the asset's recoverable amount. The recoverable amount of goodwill as well as intangible assets not yet available for use is estimated at least annually on December 31. The recoverable amount is the higher of an asset's or CGU group's fair value less costs to sell and its value in use.

Value in use is determined by discounting estimated future cash flows using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. The recoverable amount of assets that do not generate independent cash flows is determined based on the CGU group to which the asset belongs.

AGI bases its impairment calculation on detailed budgets and forecast calculations that are prepared separately for each of AGI's CGU groups to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For periods after five years, a terminal value approach is used.

An impairment loss is recognized in the consolidated statements of income if an asset's carrying amount or that of the CGU group to which it is allocated is higher than its recoverable amount. Impairment losses of a CGU group are first charged against the carrying value of the goodwill balance included in the CGU group and then against the value of the other assets, in proportion to their carrying amount. In the consolidated statements of income, the impairment losses are recognized in those expense categories consistent with the function of the impaired asset.

For assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, AGI estimates the asset's or CGU group's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset or CGU group in prior years. Such a reversal is recognized in the consolidated statements of income.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU group to which the goodwill relates. Where the recoverable amount of the CGU group is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31, either individually or at the CGU group level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Financial instruments

Financial assets

AGI classifies its financial assets as [i] amortized cost, [ii] financial assets at fair value through profit or loss ["FVTPL"] or [iii] fair value through other comprehensive income ["FVTOCI"]. Appropriate classification of financial assets is based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Certain derivatives are designated as hedging instruments and hedge accounting is applied, as appropriate.

All financial instruments are recognized initially at fair value plus, in the case of instruments not at FVTPL, directly attributable transaction costs. Financial instruments are recognized on the trade date, which is the date on which AGI commits to purchase or sell the asset. Accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Amortized cost

Financial assets are measured at amortized cost if [i] the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and [ii] the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal of amount outstanding. Assets in this category include cash and cash equivalents, cash held in trust and restricted cash, accounts receivable and note receivable and are measured at amortized cost using the effective interest method less any impairment. The effective interest amortization is included in finance costs in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income in finance costs.

Fair value through other comprehensive income (debt securities)

Debt securities are measured at FVTOCI if [i] the financial asset is held within a business model whose object is achieved by both collecting contractual cash flows and selling financial assets and [ii] the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company does not hold any debt securities measured at FVTOCI.

Fair value through other comprehensive income (equity investments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under IAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statements of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVTOCI are not subject to impairment assessment. The Company elected to classify irrevocably its equity investment under this category.

Financial assets at fair value through profit or loss

Financial assets are measured at FVTPL unless they are measured at amortized cost or at FVTOCI. Assets in this category include financial assets designated upon initial recognition at FVTPL and derivative instruments entered into that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value, with changes in the fair value recognized in finance income or finance costs in the consolidated statements of income.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash of the combined instrument varies in a way similar to a stand-alone derivative. Derivatives embedded in a financial asset within the scope of IFRS 9 are assessed in their entirety, and the asset as whole is measured at FVTPL. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if the host asset is not within the scope of IFRS 9 [e.g., lease contracts]. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statements of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Impairment

The Company recognizes an allowance for expected credit losses ["ECLs"] for debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

Under the general approach, ECLs are recognized in two stages: [i] For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months. [ii] For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default [a lifetime ECL].

For accounts receivable, AGI applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

<u>Financial liabilities</u>

Financial liabilities are measured at amortized cost, using the effective interest rate method, except for financial liabilities designated at initial recognition at FVTPL and those required to be FVTPL. Liabilities measured at amortized cost include accounts payable and accrued liabilities, dividends payable, due to vendor, long-term debt, and convertible unsecured subordinated debentures. Long-term debt, convertible unsecured subordinated debentures, and senior unsecured subordinated debentures are initially measured at fair value, which is the consideration received, net of transaction costs incurred, net of the equity component, if any. Transaction costs related to those instruments are included in the value of the instruments and amortized using the effective interest rate method. The effective interest expense is included in finance costs in the consolidated statements of income. Financial liabilities measured at FVTPL include contingent consideration resulting from business combinations and derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

AGI has not designated any financial liabilities upon initial recognition as FVTPL.

<u>Derecognition</u>

A financial asset is derecognized when the contractual rights to receive cash flows from the asset have expired or when AGI has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

Derivative financial instruments and hedge accounting

AGI uses derivative financial instruments such as forward currency contracts, interest rate swaps and equity swaps to hedge its foreign currency risk, interest rate risk and market risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

AGI analyses all its contracts, of both a financial and non-financial nature, to identify the existence of any "embedded" derivatives. Any gains or losses arising from changes in the fair value of derivatives are recorded directly in the consolidated statements of income, except for the effective portion of cash flow hedges, which is recognized in OCI.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

The Company applies IFRS 9 for hedge accounting, whereby at the inception of a hedge relationship, AGI formally designates and documents the hedge relationship to which AGI wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that Company actually uses to hedge that quantity of hedged item.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statements of income in other operating income or expenses. Amounts recognized as other comprehensive income are transferred to the consolidated statements of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the consolidated statements of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

Fair value is the estimated amount that AGI would pay or receive to dispose of these contracts in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques that are recognized by market participants. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Provisions

Provisions are recognized when AGI has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where AGI expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Warranty provisions

Provisions for warranty-related costs relate to assurance-type warranties and are recognized when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised at each reporting period.

Profit per share

The computation of profit per share is based on the weighted average number of shares outstanding during the period. Diluted profit per share is computed in a similar way to basic profit per share except that the weighted average shares outstanding are increased to include additional shares assuming the exercise of share options, share appreciation rights and convertible debt options, if dilutive.

Revenue recognition

Sale of goods

Revenue from the sale of goods is primarily recognized at a point in time when the Company satisfies a performance obligation and control of the goods is transferred from seller to buyer. A performance obligation is a good or a series of goods that are distinct. A contract with various distinct goods is considered to have multiple performance obligations for which revenue is recognized as each performance obligation is satisfied. If a promised good is not distinct, the good is combined with other promised goods until a bundle of goods is distinct, resulting in accounting for all the goods promised in a contract as a single performance obligation. In determining satisfaction of the performance obligation and point of revenue recognition, the Company considers the terms of the underlying contracts including, but not limited to, shipping terms, transfer of title and risk of loss, and acceptance/performance testing. All costs incurred or to be incurred in connection with the sale, including assurance-type warranty costs and sales incentives, are charged to cost of sales or as a deduction from revenue at the time revenue is recognized. The Company does not provide service-type warranties.

Revenue from contracts with customers is recognized at an amount that reflects the consideration to which the Company is entitled to in exchange for those goods. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Company applies the practical expedient for advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

AGI applies bill and hold sales accounting in specific situations provided all the following conditions are met as of the reporting date: [i] there is a substantive reason for the arrangement; [ii] the goods are separately identified as belonging to the customer; [iii] AGI is no longer able to use the goods or direct the goods to another customer; and [iv] the goods are currently ready for physical transfer to the customer.

The sale of certain turn-key projects under the customer's control can span over three to six months but collectively represents an insignificant portion of AGI's total revenues. Revenue on these projects is recognized over-time progressively based on the percentage completion method by reference to costs incurred as a percentage of the total estimated costs. Payment terms are usually based on set milestones as outlined in the contract. Typically amounts are received in advance of work performed and are recorded as customer deposits. Contract assets representing revenue recognized prior to being invoiced are not material. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.

Contract liabilities include customer deposits, which represent cash received from the customer in advance of the delivery of goods or work being performed. Contract liabilities are subsequently recognized in revenue when AGI performs under contracts, which typically occurs within 12 months or less. AGI has elected to use the practical expedient to not disclose the Company's remaining performance obligations as those obligations are part of contracts that have an original expected duration of less than one year.

The Company has also elected to apply the practical expedient of expensing the incremental costs of obtaining a contract when incurred as the amortization period of the asset that would be recognized is one year or less.

Income taxes

AGI and its subsidiaries are generally taxable under the statutes of their country of incorporation.

Current income tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where AGI operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

AGI follows the liability method of accounting for deferred taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to the temporary differences between the carrying value of the assets and liabilities on the consolidated statements of financial position and their respective tax bases.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates [and tax laws] that have been enacted or substantively enacted at the reporting date.

Deferred tax items are recognized in correlation to the underlying transaction either in the consolidated statements of income, other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill if it occurred during the measurement period or in profit or loss, when it occurs subsequent to the measurement period.

Sales tax

Revenue, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable and where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

Share-based compensation plans

Employees of AGI may receive remuneration in the form of share-based payment transactions, whereby employees render services and receive consideration in the form of equity instruments [equity-settled transactions or share award incentive plan and directors' deferred compensation plan]. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date and are capitalized or expensed as appropriate.

Equity-settled transactions

The cost of equity-settled transactions is determined using the grant date fair value and is recognized, together with a corresponding increase in other capital reserves, in equity, over the period in which the performance and/or service conditions are fulfilled.

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting period reflects the extent to which the vesting period has expired and AGI's best estimate of the number of the shares that will ultimately vest. The expense or credit recognized for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in the consolidated statements of income in the respective function line. When options and other share-based compensation awards are exercised or exchanged, the amounts previously credited to contributed surplus are reversed and credited to shareholders' equity. The amount of cash, if any, received from participants is also credited to shareholders' equity.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognized for the award [being the total expense as calculated at the grant date] is recognized immediately. This includes any award where vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Employee benefits

Certain employees are covered by defined benefit pension plans, and certain former employees are also entitled to other post-employment benefits such as life insurance. The Company's defined benefit plan asset (obligation) is actuarially calculated by a qualified actuary at the end of each annual reporting period using the projected unit credit method and management's best estimates of the discount rate, the rate of compensation increase, retirement rates, termination rates and mortality rates. The discount rate used to value the defined benefit obligation for accounting purposes is based on the yield on a portfolio of high-quality corporate bonds denominated in the same currency with cash flows that match the terms of the defined benefit plan obligations. Past service costs (credits) arising from plan amendments are recognized in operating income in the year that they arise. The actuarially determined net interest costs on the net defined benefit plan obligation are recognized in interest cost for the defined benefit plan. Actual post-employment benefit costs incurred may differ materially from management estimates.

The fair values of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan asset (obligation). When the plan has a net defined benefit asset, the recognized asset is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan [the "asset ceiling"]. If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future service, the net defined benefit asset is reduced to the amount of the asset ceiling. When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions.

Re-measurements including actuarial gains and losses and the impact of any minimum funding requirements are recognized through other comprehensive income.

Current employee wages and benefits are expensed as incurred.

Post-retirement benefit plans

AGI contributes to retirement savings plans subject to maximum limits per employee. AGI accounts for such defined contributions as an expense in the period in which the contributions are required to be made.

Research and development expenses

Research expenses, net of related tax credits, are charged to the consolidated statements of income in the period they are incurred. Development costs are charged to operations in the period of the expenditure unless they satisfy the condition for recognition as an internally generated intangible asset.

Government grants

Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grants relate to an asset, the fair value is credited to the cost of the asset and is released to the consolidated statements of income over the expected useful life in a consistent manner with the depreciation method for the relevant assets.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Investment tax credits

Federal and provincial investment tax credits are accounted for as a reduction of the cost of the related assets or expenditures in the year in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

Adoption of new accounting policies

IFRS 16, *Leases* ["IFRS 16"]

The Company has applied IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17, *Leases*, ["IAS 17"] and IFRIC 4, *Determining whether an Arrangement contains a Lease* ["IFRIC 4"].

For contracts entered into before January 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset.

The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company has also elected not to recognize right-of-use assets and lease liabilities for short-term leases [12 months or less] and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a result of adoption of IFRS 16, the Company recorded a right-of-use asset and a lease liability of $9,071 as at January 1, 2019 on the consolidated statements of financial position. On adoption of IFRS 16, AGI used the incremental borrowing rate as required by the standard.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

	$
Operating lease commitments as at December 31, 2018	**11,059**
Weighted average incremental borrowing rate as at January 1, 2019	5.02%
Discounted operating lease commitments at January 1, 2019	10,841
Less:	
Commitments relating to short-term and low-value leases	(1,770)
Lease liabilities as at January 1, 2019	**9,071**

IAS 19, *Employee Benefits* ["IAS 19"]

The Company adopted the amendments to IAS 19 with a date of application of January 1, 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

These amendments are applied prospectively to any future plan amendments, curtailments, or settlements of the Company; as at December 31, 2019, there were no such amendments.

IFRIC 23, *Uncertainty Over Income Tax Treatments* ["IFRIC 23"]

The Company adopted IFRIC 23 with a date of application of January 1, 2019. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Company's adoption of IFRIC 23 did not have a significant impact on the Company's consolidated financial statements.

4. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making the assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment of financial assets

Assessments about the recoverability of financial assets, including accounts receivable, require significant judgment in determining whether there is objective evidence that a loss event has occurred and estimates of the amount and timing of future cash flows. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability to collect on its trade receivables. A portion of the Company's sales are generated in overseas markets, including in emerging markets such as countries in Eastern Europe, South America, and Asia. Emerging markets are subject to various additional risks, including currency exchange rate fluctuations, economic conditions and foreign business practices. One or more of these factors could have a material effect on the future collectability of such receivables.

In assessing whether objective evidence of impairment exists at each reporting date, the Company uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns [i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance]. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 30[b]. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and operate in largely independent markets.

Future collections of accounts receivable that differ from the Company's current estimates would affect the results of the Company's operations in future periods as well as the Company's trade receivables and general and administrative expenses, and amounts may be material.

Impairment of non-financial assets

AGI's impairment test is based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and do not include restructuring activities to which AGI has not yet committed or significant future investments that will enhance the asset's performance of the CGU being tested. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate, as well as the forecasted margins and growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 14.

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the nature of products, the way in which management allocates resources and other relevant factors.

Development costs

Development costs are capitalized in accordance with the accounting policy described in note 3. Initial capitalization of costs is based on management's judgment that technical and economic feasibility is confirmed, usually when a project has reached a defined milestone according to an established project management model.

Useful lives of key property, plant and equipment and intangible assets

The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by AGI. Refer to note 3 for the estimated useful lives.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position, including the determination of the fair value of the Company's equity investment cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Contingent considerations resulting from business combinations are valued at fair value at the acquisition date as part of the business combination and subsequently fair valued as described in business combinations below.

Share-based payments

AGI measures the cost of equity-settled share-based payment transactions with employees by reference to the fair value of equity instruments at the grant date, whereas the fair value of cash-settled share-based payments is remeasured at every reporting date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of these instruments, which is dependent on the terms and conditions of the grant.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expenses already recorded. AGI establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in the respective company's domicile. As AGI assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Business combinations

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as at the date of acquisition. Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration is recognized, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

5. Standards issued but not yet effective

Standards issued, but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Amendments to IFRS 3, *Business Combinations* ["IFRS 3"]

The IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on January 1, 2020 with earlier application permitted. Consequently, transactions that occurred in prior periods do not need to be reassessed. The Company's assessment did not identify significant classification, recognition or measurement differences. The Company will adopt the amendments to IFRS 3 as at January 1, 2020.

6. Business combinations

[a] Danmare Group Inc. and Danmare, Inc.

Effective February 22, 2018, the Company acquired 100% of the outstanding shares of Danmare Group Inc. and its affiliate Danmare, Inc. [collectively, "Danmare"]. Based in Canada and the U.S., Danmare provides engineering solutions and project management services to the food industry. The acquisition further evolves AGI's ability to provide complete solutions to a broad customer base.

	$
Purchase price	9,000
Cash acquired	126
Working capital adjustment	85
Contingent consideration	1,000
Total purchase price	10,211
Post-combination expense	(3,000)
Purchase consideration	7,211

Terms of the purchase agreement included $6.0 million payable upon closing and $3.0 million payable in annual instalments, contingent on certain conditions. The $3.0 million is expected to be expensed over the three-year period. In addition, contingent consideration of $1.0 million was payable based on an earnings target. In April 2018, the purchase agreement was amended such that payment of the first annual instalment of $1.0 million and contingent consideration of $1.0 million was guaranteed. Related to certain terms of the purchase agreement, $1,797 was expensed during the year ended December 31, 2018. During the year ended December 31, 2019, $875 was expensed, of which $1,050 was paid.

The purchase has been accounted for by the acquisition method, with the results of Danmare included in the Company's net earnings from the date of acquisition.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The following table summarizes the fair values of the identifiable assets and liabilities as at the date of acquisition:

	$
Cash	126
Accounts receivable	1,112
Prepaid expenses and other assets	40
Income taxes recoverable	56
Property, plant and equipment	237
Intangible assets	
Brand name	490
Distribution network	2,690
Customer backlog	250
Goodwill	3,651
Deferred tax liability	(918)
Accounts payable and accrued liabilities	(278)
Customer deposits	(245)
Purchase consideration	7,211

The goodwill of $3,651 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

The fair value of the accounts receivable acquired is $1,112. This consists of the gross contractual value of $1,162 less the estimated amount not expected to be collected of $50.

The components of the purchase consideration are as follows:

	$
Cash paid	6,000
Cash held in trust	525
Due to vendor	686
Purchase consideration	7,211

During the year ended December 31, 2018, the cash held in trust and the amounts due to vendor were paid and the allocation of the purchase price to acquired assets and liabilities was finalized. During the year ended December 31, 2019, $1,050 of post-combination expense was paid to the vendor.

Transaction costs related to the Danmare acquisition in the year ended December 31, 2019 were $40 [2018 – $154] and are included in selling, general and administrative expenses.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

[b] Sabe Group of Companies

Effective July 26, 2018, the Company acquired 100% of the outstanding shares of Cobalt Investissement and its wholly owned subsidiaries Sabe, Sabe Distribution, Agro Maintenance Système (AMS), Sabis and Société D'Études Techniques D'Installation (Setir) [collectively, "Sabe"]. Based in France, Sabe offers design, manufacturing, installation and commissioning of turnkey solutions to the food industry. The acquisition further evolves AGI's ability to provide complete solutions to a broad customer base.

	$
Purchase price	24,464
Cash acquired	3,708
Working capital adjustment	820
Contingent consideration	2,709
Employee loans	18
Long-term debt	(738)
Total purchase price	30,981
Post-combination expense	(4,436)
Purchase consideration	26,545

The $4.4 million of post-combination expense is expected to be expensed over a three-year period. During the year ended December 31, 2019, $1,920 [2018 – $1,375] related to certain terms of the purchase agreement was expensed, of which $1,430 was paid during the year ended December 31, 2019. During the year, the earn-out period expired, and the earnings target was not met. As a result, the contingent consideration of $2.7 million was derecognized and a gain was recorded in transaction costs in the consolidated statements of income.

The purchase has been accounted for by the acquisition method, with the results of Sabe included in the Company's net earnings from the date of acquisition.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The following table summarizes the fair values of the identifiable assets and liabilities as at the date of acquisition:

	$
Cash	3,708
Accounts receivable	2,090
Inventory	749
Prepaid expenses and other assets	135
Property, plant and equipment	4,233
Intangible assets	
Trade name	5,234
Customer relationships	6,493
Customer backlog	837
Goodwill	14,131
Accounts payable and accrued liabilities	(4,920)
Customer deposits	(585)
Income taxes payable	(123)
Deferred tax liability	(4,695)
Long-term payables	(4)
Long-term debt	(738)
Purchase consideration	26,545

The fair value of the accounts receivable acquired is $2,090. This consists of the gross contractual value of $2,332 less the estimated amount not expected to be collected of $242.

The goodwill of $14,131 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further deferred tax liabilities existing at acquisition were identified, resulting in a $1,337 increase in deferred tax liability and an offsetting increase in goodwill, in the year ended December 31, 2019.

The components of the purchase consideration are as follows:

	$
Cash paid	23,432
Due to vendor	404
Contingent consideration derecognized in the year	2,709
Purchase consideration	26,545

Transaction costs related to the Sabe acquisition in the year ended December 31, 2019 were $209 [2018 – $523] and are included in selling, general and administrative expenses. During the year ended December 31, 2019, the allocation of the purchase price to acquired assets and liabilities was finalized.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

[c] Improtech Ltd.

Effective January 18, 2019, the Company acquired 100% of the outstanding shares of Improtech Ltd ["Improtech"]. Improtech is a professional engineering services firm specializing in providing engineering design, project management and integration of new machinery and processes within the food and beverage industry. The acquisition further evolves AGI's ability to provide complete solutions to a broad customer base.

	$
Purchase price	3,000
Cash acquired	438
Working capital adjustment	479
Pre-paid tax instalments	124
Total purchase price	4,041
Post-combination expense	(2,000)
Purchase consideration	2,041

The $2 million of post-combination expense is expected to be expensed over a three-year period, contingent on certain conditions. During the year ended December 31, 2019, $1,222 [2018 – nil] related to certain terms of the purchase agreement was expensed.

The purchase has been accounted for by the acquisition method, with the results of Improtech included in the Company's net earnings from the date of acquisition.

The following table summarizes the provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	$
Cash	438
Accounts receivable	1,422
Prepaid expenses and other assets	149
Property, plant and equipment	17
Right-of-use assets	131
Intangible assets	
Customer relationships	748
Goodwill	316
Accounts payable and accrued liabilities	(600)
Customer deposits	(249)
Lease liability	(131)
Deferred tax liability	(200)
Purchase consideration	2,041

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The goodwill of $316 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

The fair value of the accounts receivable acquired is $1,422. This consists of the gross contractual value of $1,447 less the estimated amount not expected to be collected of $25.

From the date of acquisition, Improtech contributed to the results $2,041 of revenue and $1,277 of net loss. If the acquisition had taken place as at January 1, 2019, revenue in 2019 would not have materially changed.

The components of the purchase consideration are as follows:

	$
Cash paid	1,000
Due to vendor	1,041
Purchase consideration	2,041

During the year ended December 31, 2019, the amount due to vendor was paid in full and the allocation of the purchase price to acquired assets and liabilities was finalized.

Transaction costs related to the Improtech acquisition in the year ended December 31, 2019 were $107 [2018 – $54] and are included in selling, general and administrative expenses.

[d] IntelliFarms LLC

Effective March 5, 2019, the Company acquired 100% of the LLC interests of IntelliFarms LLC [“IntelliFarms”]. IntelliFarms is a provider of hardware and software solutions that benefit grain growers, processors, and other participants in the agriculture market. IntelliFarms was founded in 2001 and is headquartered in Archie, Missouri.

	$
Purchase price	19,350
Cash acquired	53
Working capital adjustment	87
Contingent consideration	5,105
Customer deposits	(1,566)
Total purchase price	23,029
Post-combination expense	(7,340)
Purchase consideration	15,689

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The $7.3 million of post-combination expense is expected to be expensed over a three-year period, contingent on certain conditions. During the year ended December 31, 2019, $3,041 [2018 – nil] related to certain terms of the purchase agreement was expensed. In addition, contingent consideration of $5.1 million is payable based on an earnings target.

The purchase has been accounted for by the acquisition method, with the results of IntelliFarms included in the Company's net earnings from the date of acquisition.

The following table summarizes the fair values of the identifiable assets and liabilities as at the date of acquisition:

	$
Cash	53
Accounts receivable	225
Inventory	1,235
Prepaid expenses and other assets	61
Property, plant and equipment	803
Right-of-use assets	289
Intangible assets	
Trade name	1,768
Customer relationships	1,603
Customer backlog	380
Software	3,336
Goodwill	13,358
Accounts payable and accrued liabilities	(4,153)
Customer deposits	(2,740)
Lease liability	(65)
Long-term debt	(464)
Purchase consideration	15,689

The goodwill of $13,358 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further information regarding the working capital adjustment as part of the purchase consideration was identified, resulting in a $218 increase in working capital with an offsetting increase in goodwill. Further information regarding inventory, intangible assets and accounts payable and accrued liabilities was also identified, resulting in a $315 decrease in inventory, $1,469 increase in intangible assets, and $1,041 increase in accounts payable and accrued liabilities, with an offsetting increase in goodwill.

The fair value of the accounts receivable acquired is $225. This consists of the gross contractual value of $359 less the estimated amount not expected to be collected of $134.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

From the date of acquisition, IntelliFarms contributed to the results $12,522 of revenue and $8,131 of net loss. Revenue and net loss that occurred as though the acquisition date for the business had been as of the beginning of the annual reporting period are impracticable to disclose due to IntelliFarms historically reporting under differing reporting standards and differing year-end.

The components of the purchase consideration are as follows:

	$
Cash paid	12,010
Due from vendor	(1,426)
Contingent consideration	5,105
Purchase consideration	15,689

Transaction costs related to the IntelliFarms acquisition in the year ended December 31, 2019 were $162 [2018 – nil] and are included in selling, general and administrative expenses.

During the year ended December 31, 2019, the allocation of the purchase price to acquired assets and liabilities was finalized.

[e] Milltec Machinery Limited

Effective March 28, 2019, the Company acquired 100% of the outstanding shares of Milltec Machinery Limited [“Milltec”]. Based in India, Milltec is a market leading manufacturer of rice milling and processing equipment. The acquisition further evolves AGI’s ability to provide complete solutions to a broad customer base.

	$
Purchase price	113,079
Cash acquired	6,746
Working capital adjustment	32
Due to vendor	4,917
Optionally convertible redeemable preferred shares [“OCRPS”]	26,494
Purchase consideration	151,268

The due to vendor and OCRPS redemption value of $31.4 million is payable based on earnings targets from 2019 through 2024.

The purchase has been accounted for by the acquisition method, with the results of Milltec included in the Company’s net earnings from the date of acquisition. The fair value of the assets acquired and the liabilities assumed has been determined on a provisional basis utilizing information available at the time the consolidated financial statements were prepared. Additional information is being gathered to finalize these provisional measurements particularly with respect to intangible assets, goodwill and deferred taxes. Accordingly, the measurement of assets acquired and liabilities assumed may change upon finalization of the Company's valuation and completion of the purchase price allocation, both of which are expected to occur no later than one year from the acquisition date.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The following table summarizes the provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	$
Cash	6,746
Restricted cash	1,425
Accounts receivable	11,796
Inventory	8,809
Prepaid expenses and other assets	4,489
Income taxes recoverable	87
Property, plant and equipment	20,456
Right-of-use assets	24
Intangible assets	
Trade name	12,764
Customer relationships	23,599
Customer backlog	3,835
Goodwill	92,297
Accounts payable and accrued liabilities	(16,347)
Other liabilities	(172)
Customer deposits	(2,533)
Lease liability	(24)
Deferred tax liability	(15,693)
Long-term payables	(290)
Purchase consideration	151,268

The goodwill of $92,297 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further analysis of revenue recognition resulted in the reversal of certain sales and related costs. As a result, accounts receivable decreased by $946, inventory increased by $846, accounts payable and accrued liabilities decreased by $98 and intangible assets increased by $197. In addition, the fair value of property, plant, and equipment acquired increased by $129, income taxes decreased by $240 from a payable to a recoverable position, and deferred tax liability increased by $12,450. All other adjustments net to $54. These changes resulted in an overall increase of $10,720 to goodwill.

The fair value of the accounts receivable acquired is $11,796. This consists of the gross contractual value of $12,281 less the estimated amount not expected to be collected of $485.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

From the date of acquisition, Milltec contributed to the results $45,484 of revenue and $3,091 of net loss. Revenue and net income that occurred as though the acquisition date for the business had been as of the beginning of the annual reporting period are impracticable to disclose due to Milltec historically reporting with a differing year-end.

The components of the purchase consideration are as follows:

	$
Cash paid	106,845
Due to vendor	17,929
Optionally convertible redeemable preferred shares	26,494
Purchase consideration	151,268

As part of the acquisition, a subsidiary of the Company issued 1,050 Series A1 and 700 Series A2 non-voting OCRPS at a price per share of INR 1,000. The Series A1 and A2 OCRPS have a cumulative preferential dividend rate of 0.00001% and must be redeemed by the nineteenth anniversary of their issuance. The OCRPS represent contingent consideration included within the acquisition agreement, and the future value of the OCRPS, to a maximum of INR 1,750 million [$34.4 million CAD], will be based on the achievement of certain earning targets over the period of April 1, 2020 to March 31, 2024, as set forth in the terms and conditions of the OCRPS agreement. The OCRPS can be redeemed by the Company for cash, or the Company has the option to convert the OCRPS for shares and direct an affiliate of the Company to purchase the shares for cash. As such, the preferred shares are recorded as a financial liability at fair value through profit and loss.

Transaction costs related to the Milltec acquisition in the year ended December 31, 2019 were $2,148 [2018 – $735] and are included in selling, general and administrative expenses.

7. Restricted cash

As at December 31, 2019, restricted cash of $5,416 consists of cash on hand related to certain contractual obligations.

As at December 31, 2018, restricted cash of $827 consists of cash on hand related to advance payment guarantees included in sales contracts with customers.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

8. Accounts receivable

As is typical in the agriculture sector, AGI may offer extended terms on its accounts receivable to match the cash flow cycle of its customer. The following table sets forth details of the age of trade accounts receivable that are not overdue, as well as an analysis of overdue amounts and the related allowance for doubtful accounts:

	2019	2018
	$	$
Total current accounts receivable	164,301	135,770
Less allowance for doubtful accounts	(1,758)	(1,531)
	162,543	134,239
Non-current accounts receivable	16,182	8,122
Total accounts receivable, net	178,725	142,361
Of which		
Neither impaired nor past due	132,022	110,469
Not impaired and past the due date as follows		
Within 30 days	18,200	14,858
31 to 60 days	5,877	4,167
61 to 90 days	8,051	3,922
Over 90 days	16,333	10,476
Allowance for doubtful accounts	(1,758)	(1,531)
Total accounts receivable, net	178,725	142,361

Non-current accounts receivable is the present value of asset-backed receivables. These receivables are backed by customers' crop pledge and/or property, plant and equipment.

Trade receivables assessed to be impaired are included as an allowance in selling, general and administrative expenses in the period of the assessment. The movement in the Company's allowance for doubtful accounts for the years ended December 31, 2019 and December 31, 2018 was as follows:

	2019	2018
	$	$
Balance, beginning of year	1,531	1,846
Additional provision recognized	298	143
Amounts written off during the year as uncollectible	(27)	(457)
Exchange differences	(44)	(1)
Balance, end of year	1,758	1,531

9. Inventory

	2019 $	2018 $
Raw materials	85,017	102,244
Finished goods	89,339	88,643
	174,356	190,887

[in thousands of Canadian dollars, except where otherwise noted and per share data]

10. Property, plant and equipment

	Land $	Grounds $	Buildings $	Leasehold improvements $	Furniture and fixtures $	Vehicles $	Computer hardware $	Manufacturing equipment $	Construction in progress $	Total $
Cost										
Balance, January 1, 2019	22,411	6,350	167,486	5,688	3,632	17,327	7,443	169,489	13,150	412,976
Additions	503	1,055	5,840	4,067	703	6,278	2,513	27,496	84	48,539
Acquisitions	13,754	—	2,854	45	235	578	214	3,596	—	21,276
Transfer to right-of-use assets *[note 11]*	—	—	—	—	—	(70)	—	(259)	—	(329)
Disposals	—	(31)	(3)	(96)	(111)	(1,197)	(31)	(956)	—	(2,425)
Impairment	(187)	—	—	—	—	—	—	—	—	(187)
Exchange differences	(1,720)	(188)	(6,941)	(602)	(204)	(2,605)	(114)	(3,991)	(529)	(16,894)
Balance, December 31, 2019	34,761	7,186	169,236	9,102	4,255	20,311	10,025	195,375	12,705	462,956
Depreciation										
Balance, January 1, 2019	—	1,303	15,967	1,478	1,649	7,083	4,522	48,329	—	80,331
Depreciation	—	466	4,891	573	400	2,079	1,163	12,859	—	22,431
Transfer to right-of-use assets *[note 11]*	—	—	—	—	—	(21)	—	(28)	—	(49)
Disposals	—	(7)	—	(23)	(51)	(705)	(30)	(557)	—	(1,373)
Exchange differences	—	(63)	(439)	(8)	(80)	(1,501)	(41)	70	—	(2,062)
Balance, December 31, 2019	—	1,699	20,419	2,020	1,918	6,935	5,614	60,673	—	99,278
Net book value, January 1, 2019	22,411	5,047	151,519	4,210	1,983	10,244	2,921	121,160	13,150	332,645
Net book value, December 31, 2019	34,761	5,487	148,817	7,082	2,337	13,376	4,411	134,702	12,705	363,678

Notes to consolidated financial statements

[in thousands of Canadian dollars, except where otherwise noted and per share data]

December 31, 2019

	Land $	Grounds $	Buildings $	Leasehold improvements $	Furniture and fixtures $	Vehicles $	Computer hardware $	Manufacturing equipment $	Construction in progress $	Total $
Cost										
Balance, January 1, 2018	21,722	4,717	150,742	3,778	3,230	14,000	5,948	139,520	21,193	364,850
Additions	—	1,552	9,239	1,857	298	3,965	1,351	26,065	(7,778)	36,549
Acquisitions	81	—	2,254	100	66	121	130	1,718	—	4,470
Classification as held for sale	—	—	(805)	—	—	—	—	—	—	(805)
Disposals	—	(47)	—	(154)	(32)	(1,063)	(119)	(1,005)	(32)	(2,452)
Impairment	—	—	(226)	—	—	—	—	—	—	(226)
Exchange differences	608	128	6,282	107	70	304	133	3,191	(233)	10,590
Balance, December 31, 2018	22,411	6,350	167,486	5,688	3,632	17,327	7,443	169,489	13,150	412,976
Depreciation										
Balance, January 1, 2018	—	932	11,059	1,128	1,326	5,882	3,515	36,465	—	60,307
Depreciation	—	325	4,396	354	313	1,618	1,004	11,190	—	19,200
Classification as held for sale	—	—	(19)	—	—	—	—	—	—	(19)
Disposals	—	(1)	—	(8)	(30)	(506)	(116)	(646)	—	(1,307)
Exchange differences	—	47	531	4	40	89	119	1,320	—	2,150
Balance, December 31, 2018	—	1,303	15,967	1,478	1,649	7,083	4,522	48,329	—	80,331
Net book value, January 1, 2018	21,722	3,785	139,683	2,650	1,904	8,118	2,433	103,055	21,193	304,543
Net book value, December 31, 2018	22,411	5,047	151,519	4,210	1,983	10,244	2,921	121,160	13,150	332,645

[in thousands of Canadian dollars, except where otherwise noted and per share data]

AGI regularly assesses its long-lived assets for impairment. As at December 31, 2019 and 2018, the recoverable amount of each CGU exceeded the carrying amounts of the assets allocated to the respective units.

Capitalized borrowing costs

No borrowing costs were capitalized in 2019 or 2018.

11. Right-of-use assets

	Buildings	Furniture and fixtures	Vehicles	Manufacturing equipment	Total
	$	$	$	$	$
Balance, beginning of year	6,745	387	589[1]	1,350[1]	9,071
Additions	2,601	175	140	52	2,968
Acquisitions	420	—	24	—	444
Depreciation	(2,147)	(128)	(293)	(459)	(3,027)
Exchange differences	(23)	(13)	(17)	(50)	(103)
Balance, end of year	7,596	421	443	893	9,353

[1] Includes $280 transferred from property, plant and equipment for leases previously classified as finance leases under IAS 17 and IFRIC 4.

12. Goodwill

	2019	2018
	$	$
Balance, beginning of year	**256,619**	234,669
Acquisitions *[note 6]*	**107,308**	16,423
Exchange differences	**(12,354)**	5,527
Balance, end of year	**351,573**	256,619

[in thousands of Canadian dollars, except where otherwise noted and per share data]

13. Intangible assets

	Distribution networks and customer relationships	Brand names	Patents	Software	Order backlog	Non-compete agreement	Development projects	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, January 1, 2019	153,863	124,579	3,023	6,725	9,768	114	15,502	313,574
Internal development	—	—	106	2,488	—	—	10,663	13,257
Acquisitions	25,950	14,533	—	3,335	4,215	—	—	48,033
Exchange differences	(4,649)	(3,302)	(61)	(345)	(564)	—	1,110	(7,811)
Balance, December 31, 2019	175,164	135,810	3,068	12,203	13,419	114	27,275	367,053
Amortization								
Balance, January 1, 2019	63,304	—	2,157	3,522	9,623	79	1,690	80,375
Amortization	13,436	—	153	1,445	4,248	16	3,432	22,730
Exchange differences	(1,533)	—	(92)	(191)	(454)	—	1,360	(910)
Balance, December 31, 2019	75,207	—	2,218	4,776	13,417	95	6,482	102,195
Net book value, January 1, 2019	90,559	124,579	866	3,203	145	35	13,812	233,199
Net book value, December 31, 2019	99,957	135,810	850	7,427	2	19	20,793	264,858

[in thousands of Canadian dollars, except where otherwise noted and per share data]

December 31, 2019

	Distribution networks and customer relationships	Brand names	Patents	Software	Order backlog	Non-compete agreement	Development projects	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, January 1, 2018	140,767	115,852	2,828	4,791	8,270	114	9,863	282,485
Internal development	—	—	94	1,689	—	—	5,614	7,397
Acquisitions	9,183	5,724	—	—	1,087	—	—	15,994
Exchange differences	3,913	3,003	101	245	411	—	25	7,698
Balance, December 31, 2018	153,863	124,579	3,023	6,725	9,768	114	15,502	313,574
Amortization								
Balance, January 1, 2018	50,878	—	1,915	2,451	7,751	63	1,271	64,329
Amortization	10,428	—	141	890	1,455	16	901	13,831
Exchange differences	1,998	—	101	181	417	—	(482)	2,215
Balance, December 31, 2018	63,304	—	2,157	3,522	9,623	79	1,690	80,375
Net book value, January 1, 2018	89,889	115,852	913	2,340	519	51	8,592	218,156
Net book value, December 31, 2018	90,559	124,579	866	3,203	145	35	13,812	233,199

The Company is continuously working on research and development projects. Development costs capitalized include the development of new products and the development of new applications of existing products and prototypes. Research costs and development costs that are not eligible for capitalization have been expensed and are recognized in selling, general and administrative expenses.

Intangible assets include patents acquired through business combinations, which have a remaining life between 2 and 8 years. All brand names with a carrying amount of $135,810 [2018 – $124,579] have been classified as indefinite-life intangible assets, as the Company expects to maintain these brand names and currently no end point of the useful lives of these brand names can be determined. The Company assesses the assumption of an indefinite useful life at least annually. For definite-life intangible assets, the Company assesses whether there are indicators of impairment at subsequent reporting dates as a triggering event for performing an impairment test.

Intangible assets and research and development expenses for the year ended December 31, 2019 are net of combined federal and provincial scientific research and experimental development ["SR&ED"] tax credits in the amounts of $68 and $133, respectively. A number of specific criteria must be met in order to qualify for federal and provincial SR&ED investment tax credits. As at December 31, 2019, the Company had federal investment tax credit carryforwards in the amount of nil [2018 – nil], federal SR&ED investment tax credit carryforwards in the amount of $1,038 [2018 – $947], provincial SR&ED investment tax credit carryforwards in the amount of $786 [2018 – $696] and provincial manufacturing or processing tax credits in the amount of $658 [2018 – $658]; these began expiring in 2015.

Other significant intangible assets are goodwill *[note 12]* and the distribution network and customer relationships of the Company. The distribution network and customer relationships were acquired in past business combinations and reflect the Company's dealer network in North America and its international customer base. The remaining amortization period for the distribution network and customer relationships ranges from 2 to 20 years.

The Company had no contractual commitments for the acquisition of intangible assets as of the reporting date.

14. Impairment testing

The Company performs its annual goodwill impairment test as at December 31. The recoverable amount of the Company's group of CGUs has been determined based on value in use for the year ended December 31, 2019, using cash flow projections covering a five-year period. The Company performs its indefinite-life intangible assets impairment test as at December 31, which are tested at the individual CGU level.

The pre-tax discount rates applied to the cash flow projections for Farm and Commercial are 11.1% and 10.9% [2018 – 11.3% and 11.1%] and cash flows beyond the five-year period are extrapolated using a 3% growth rate [2018 – 3%], which is management's estimate of long-term inflation and productivity growth in the industry and geographies in which it operates.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The Company's group of CGUs, goodwill and indefinite-life intangible assets allocated thereto are as follows, which represents how goodwill is monitored by management.

	2019	2018
	$	$
Farm		
Goodwill	**145,378**	132,469
Intangible assets with indefinite lives	**79,501**	78,206
Commercial		
Goodwill	**206,195**	124,150
Intangible assets with indefinite lives	**56,309**	46,373
Total		
Goodwill	**351,573**	256,619
Intangible assets with indefinite lives	**135,810**	124,579

The values of significant indefinite-life intangible assets are held by Westfield and Westeel; the values of which are $19,000 and $43,300, respectively.

Key assumptions used in valuation calculations

The calculation of value in use or fair value less cost to sell for all the CGUs or group of CGUs is most sensitive to the following assumptions:

- Gross margins;
- Discount rates;
- Market share during the budget period; and
- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins

Forecasted gross margins are based on actual gross margins achieved in the years preceding the forecast period. Margins are kept constant over the forecast period and the terminal period, unless management has started an efficiency improvement process.

Discount rates

Discount rates reflect the current market assessment of the risks specific to each CGU or group of CGUs. The discount rate was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the CGU or group of CGUs for which future estimates of cash flows have not been adjusted.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates [as noted below], management assesses how the CGU's or group of CGUs' position, relative to its competitors, might change over the forecast period.

Growth rate estimates

Rates are based on published research and are primarily derived from the long-term Consumer Price Index expectations for the markets in which AGI operates. Management considers the Consumer Price Index to be a conservative indicator of the long-term growth expectations for the agricultural industry.

15. Equity investment

[a] Equity investment at fair value through OCI

In fiscal 2009, AGI invested $2 million in a privately held Canadian farming company ["Investco"]. In conjunction with AGI's investment, Investco made a $2 million deposit to AGI for future purchases of grain handling and storage equipment to support their farming operations, and AGI was to become a strategic supplier to Investco. AGI recorded a $1.1 million charge to reflect management's estimate of the fair value of its investment in Investco in 2014. In 2019, AGI concluded that it is unlikely to recover its investment in Investco based on externally available information and observable conditions, and as a result, recorded a decrease of $0.9 million in the fair value of the equity investment in OCI, which represented the remaining value of Investco.

[b] Investment in associate

	2019 $
Carrying value, beginning of period	—
Additions in the year	19,720
Share of net loss for the period before adjustments	(1,598)
Amortization of fair value adjustments	(754)
Share of net loss for the period	(2,352)
Share of other comprehensive income	(56)
Carrying value, end of period	17,312

On July 16, 2019, the Company acquired an equity interest in Farmobile Inc. ["Farmobile"], a privately owned agriculture technology company, headquartered in Leawood, Kansas. The consideration given for the equity interest in Farmobile amounted to $19,720. In addition, the Company incurred $140 of transaction costs which were capitalized with the investment.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The equity interest acquired in Farmobile represents an investment subject to significant influence, which is accounted for using the equity method from the date of acquisition, July 16, 2019. The investment was initially recorded at cost and adjustments were made to include the Company's share of Farmobile's net loss. The Company's share of net loss was adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Farmobile acquired and the tax impact. The Company's share of net loss since acquisition of $2,352 has been recorded in the consolidated statements of income.

Farmobile is a start-up company and its revenue is nominal at present. The Company's share of net loss since acquisition is $2,352.

Farmobile's balance sheet

	2019
	$
Current assets	19,359
Non-current assets	3,542
Current liabilities	(1,706)
Non-current liabilities	(8)
Equity	**21,187**
The Company's share of Farmobile	
Share of equity	8,051
Goodwill	12,696
Fair value adjustment and amortization of intangible assets	(3,435)
	17,312

16. Assets held for sale

Assets held for sale include a building in Illinois and land, grounds, and building in Brazil. These land, grounds, and buildings met the definition of assets held for sale and were recorded at the lower of cost and fair value less cost to sell. During the year ended December 31, 2019, the Company recorded impairment losses totaling $46. As at December 31, 2019, the carrying amount of the assets held for sale is $1,043.

17. Accounts payable and accrued liabilities

	2019	2018
	$	$
Trade payables	**51,753**	49,415
Other payables	**25,280**	19,770
Personnel-related accrued liabilities	**26,523**	30,224
Accrued outstanding service invoices	**1,822**	2,095
	105,378	101,504

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Trade payables and other payables are non-interest bearing and are normally settled on 30- or 60-day terms. Personnel-related accrued liabilities include primarily vacation accruals, bonus accruals and overtime benefits. For explanations on the Company's credit risk management processes, refer to note 30.

18. Provisions

Provisions consist of the Company's warranty provision. A provision is recognized for expected claims on products sold based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns.

	2019	2018
	$	$
Balance, beginning of year	**7,685**	5,909
Additional provisions recognized	**18,007**	7,907
Amounts written off	**(10,870)**	(6,244)
Acquisitions	**2,717**	113
Balance, end of year	**17,539**	7,685

19. Lease liability

	Incremental borrowing rate	Maturity	2019
	%		$
Current	2.7 – 29.3	2020	**2,562**
Non-current	2.7 – 29.3	2021 – 2029	**6,787**
Lease liability			**9,349**

The Company has various lease contracts that have not yet commenced as at December 31, 2019. The future lease payments for the non-cancellable lease contracts are $485 within one year, $4,601 within five years and $3,742 thereafter.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

20. Long-term debt

	Interest rate	Maturity	2019	2018
	%		$	$
Current portion of long-term debt				
Canadian swing line	3.7 – 6.8	2023	345	—
Equipment financing	nil	2025	348	289
			693	289
Non-current portion of long-term debt				
Equipment financing	nil	2025	773	809
Series B secured notes	4.4	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	32,470	34,105
Canadian Revolver	4.1 – 6.9	2023	140,511	69,203
U.S. Revolver	4.0 – 4.3	2023	196,379	144,877
			395,133	273,994
Less deferred financing costs			(2,698)	(2,862)
			392,435	271,132
Long-term debt			393,128	271,421

[a] Bank indebtedness

AGI has a swing line of $40.0 million and U.S. $10.0 million. The facilities bear interest at prime plus 0.45% to prime plus 1.5% per annum based on performance calculations. As at December 31, 2019, there was $345 [2018 – nil] outstanding under the swing line.

Collateral for the swing line ranks pari passu with the Series B and C secured notes and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

[b] Long-term debt

AGI's revolver facilities of $175 million and U.S. $215 million are inclusive of amounts that may be allocated to the Company's swing line and can be drawn in Canadian or U.S. funds. The facilities bear interest at BA or LIBOR plus 1.45% to BA or LIBOR plus 2.5% and prime plus 0.45% to prime plus 1.5% per annum based on performance calculations. The combined effective interest rate for the year ended December 31, 2019 on AGI's revolver facilities was 5.11%. As at December 31, 2019, there was $337 million [2018 – $214 million] outstanding under these facilities. Interest on a portion of the revolver line has been fixed at 3.8% through an interest rate swap contract *[note 30]*. Collateral for the revolving line ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The Series B secured notes were issued on May 22, 2015. The non-amortizing notes bear interest at 4.4% payable quarterly and mature on May 22, 2025. Collateral for the Series B secured notes and term loans ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

The Series C secured notes were issued on October 29, 2016. The non-amortizing notes bear interest at 3.7% payable quarterly and mature on October 29, 2026. The Series C secured notes are denominated in U.S. dollars. Collateral for the Series C secured notes and term loans ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

[c] Covenants

AGI is subject to certain financial covenants in its credit facility agreements that must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require AGI to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 3.25, the calculation of which excludes the convertible unsecured subordinated debentures from debt, and to provide debt service coverage of a minimum of 1.0. In the event of an acquisition in respect of which the aggregate consideration is $75,000 or greater, the minimum debt to EBITDA ratio increases to 3.75 in the financial quarter in which the acquisition occurs and the three succeeding financial quarters, to 3.50 for the immediately succeeding quarter and subsequently will revert to 3.25. As at December 31, 2019 and December 31, 2018, AGI was in compliance with all financial covenants.

On March 20, 2020, the Company amended and extended the Credit Facility *[note 30]*. As a result, the financial covenant that requires AGI to maintain a debt to EBITDA ratio of less than 3.25 has been raised to 3.75 as at December 31, 2019 and for fiscal 2020 and 3.25 thereafter. In addition, in the event of an acquisition by AGI for aggregate consideration of $75,000 or greater, in fiscal 2020 or in subsequent years, the debt to EBITDA ratio requirement increases to 3.75 or less for the financial quarter and the three following financial quarters in which the acquisition occurred.

21. Convertible unsecured subordinated debentures

	2019 $	2018 $
Current portion of convertible unsecured subordinated debentures	**74,298**	50,708
Non-current portion of convertible unsecured subordinated debentures		
Principal amount	**172,475**	247,500
Equity component	**(6,351)**	(9,629)
Accretion	**2,827**	3,536
Financing fees, net of amortization	**(4,416)**	(7,267)
	164,535	234,140
Convertible unsecured subordinated debentures	**238,833**	284,848

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Year issued	Aggregate principal amount	Coupon	Conversion price	Conversion rate(1)	Number of common shares reserved for issuance upon conversion	Maturity date	Redeemable at par (2)(3)
	$		$				
2015	75,000	5.00%	60.00	16.6667	1,250,000	31-Dec-20	01-Jan-20
2017	86,225	4.85%	83.45	11.9832	1,033,551	30-Jun-22	30-Jun-21
2018	86,250	4.50%	88.15	11.3443	978,446	31-Dec-22	01-Jan-22

[1] During the year ended December 31, 2019, a holder of the 2017 Debentures converted $25,000 into common shares. No conversion options were exercised during the year ended December 31, 2018.
[2] At the option of the Company, at par plus accrued and unpaid interest.
[3] In the twelve-month period prior to the date on which the Company may, at its option, redeem any series of convertible debentures at par plus accrued and unpaid interest, such convertible debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares ["Common Shares"] of the Company during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price.

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligation to pay interest on the Debentures by delivering sufficient common shares. The Company does not expect to exercise the option to satisfy its obligations to pay the principal amount or interest by delivering common shares. The number of shares issued will be determined based on market prices at the time of issuance.

On April 2, 2019, the Company redeemed its 5.25% convertible unsecured subordinated debentures due December 31, 2019 [“2014 Debentures”] in accordance with the terms of the supplemental trust indenture dated December 1, 2014. Upon redemption, AGI paid to the holders of the 2014 Debentures the redemption price of $52,435 equal to the outstanding principal amount of the 2014 Debentures redeemed including accrued and unpaid interest up to but excluding the redemption date, less taxes deducted or withheld.

Consequently, during the year ended December 31, 2019, the Company expensed the remaining unamortized balance of $425 of deferred fees related to the 2014 Debentures. The expense was recorded to finance costs in the consolidated statements of income. Upon redemption, a gain of $55 was recorded to gain on financial instruments and the equity component of the 2014 Debentures was reclassified to contributed surplus.

On January 2, 2020, the Company redeemed its 5.00% convertible unsecured subordinated debentures due December 31, 2020 [“2015 Debentures”] in accordance with the terms of the supplemental trust indenture dated September 29, 2015. Upon redemption, AGI paid to the holders of the 2015 Debentures the redemption price of

[in thousands of Canadian dollars, except where otherwise noted and per share data]

$75,031 equal to the outstanding principal amount of the 2015 Debentures redeemed including accrued and unpaid interest up to but excluding the redemption date, less taxes deducted or withheld.
Consequently, during the year ended December 31, 2019, the Company expensed the remaining unamortized balance of $723 of deferred fees related to the 2015 Debentures. The expense was recorded to finance costs in the consolidated statements of income.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the Debentures, the Company recorded the liability, which is the aggregate principal amount less related offering costs, and the estimated fair value of the holder's conversion option as follows:

Year issued	Aggregate principal amount $	Offering costs $	Equity component $
2015	75,000	3,509	3,277
2017	86,250	3,673	4,290
2018	86,250	3,957	2,063

The liability component is accreted using the effective interest rate method. The equity component of $6,707 [2018 – $8,203] on the consolidated statements of financial position is net of income taxes of $2,471 [2018 – $3,028] and its pro rata share of financing costs of $452 [2018 – $563].

During the year ended December 31, 2019, the Company recorded accretion, non-cash interest expense relating to financing costs, and interest expense on the coupon of:

	2019		
Year issued	Accretion $	Non-cash interest expense $	Interest expense $
2014	117	137	649
2015	663	681	3,750
2017	806	689	4,182
2018	398	759	3,881

[in thousands of Canadian dollars, except where otherwise noted and per share data]

During the year ended December 31, 2018, the Company recorded accretion, non-cash interest expense relating to financing costs, and interest expense on the coupon of:

	2018		
Year issued	Accretion $	Non-cash interest expense $	Interest expense $
2014	452	527	2,717
2015	626	641	3,750
2017	761	650	4,183
2018	366	692	3,881

22. Senior unsecured subordinated debentures

	2019 $
Principal amount	172,500
Financing fees, net of amortization	(7,026)
Senior unsecured subordinated debentures	**165,474**

On March 19, 2019, the Company closed the offering of $75 million aggregate principal amount of senior subordinated unsecured debentures [the "2019 March Debentures"] at a price of $1,000 per Debenture [the "Offering"]. On March 26, 2019, AGI closed the over-allotment option of $11.25 million aggregate principal amount of Debentures at the same price. The net proceeds of the Offering of $82,100, net of fees, were used to fund the redemption of the Company's 2014 Debentures, to repay existing indebtedness and for general corporate purposes.

On November 19, 2019, the Company closed the offering of $75 million aggregate principal amount of senior subordinated unsecured debentures [the "2019 November Debentures"] at a price of $1,000 per Debenture [the "Offering"]. On November 22, 2019, AGI closed the over-allotment option of $11.25 million aggregate principal amount of Debentures at the same price. The net proceeds of the Offering initially were used to repay a portion of the Company's revolving bank debt and then redrawn to fund the redemption of the outstanding 2015 Debentures. AGI redeemed in full the Company's 5.00% Convertible Unsecured Debentures due December 31, 2020 [the "2015 Debentures"] on January 2, 2020.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Year issued	Aggregate principal amount $	Coupon	Maturity date	Redeemable[3]
2019 March	86,250	5.40%	30-Jun-24	30-Jun-22[1]
2019 November	86,250	5.25%	31-Dec-24	31-Dec-22[2]

[1] On and after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures may be redeemed at the Company's option at a price equal to 102.70% of their principal amount plus accrued and unpaid interest. On or after June 30, 2023, the 2019 Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.
[2] On and after December 31, 2022 and prior to December 31, 2023, the Debentures may be redeemed at the Company's option at a price equal to 102.625% of their principal amount plus accrued and unpaid interest. On or after December 31, 2023, the Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.
[3] The Company will have the option to satisfy its obligation to repay the principal amount of the Debentures due at redemption or maturity by issuing and delivering that number of freely tradeable common shares in accordance with the terms of the Indenture.

The debentures will not be convertible into common shares of the Company at the option of the holders at any time.

During the year ended December 31, 2019, the Company recorded non-cash interest expense of $561 relating to financing costs, and interest expense on the coupon of $4,164.

23. Equity

[a] Common shares

Authorized
Unlimited number of voting common shares without par value

Issued
18,658,479 common shares

	Shares \#	Amount $
Balance, January 1, 2018	16,160,916	323,199
Dividend reinvestment shares issued from treasury *[note 23[d]]*	26,132	1,384
Settlement of EIAP obligation	144,451	5,820
Issuance of common shares	1,874,500	111,564
Convertible unsecured subordinated debentures	157,781	8,678
Balance, December 31, 2018	18,363,780	450,645
Settlement of EIAP obligation	294,400	5,187
Convertible unsecured subordinated debentures *[note 21]*	299	25
Balance, December 31, 2019	18,658,479	455,857

[in thousands of Canadian dollars, except where otherwise noted and per share data]

[b] Contributed surplus

	2019	2018
	$	$
Balance, beginning of year	**26,045**	20,956
Equity-settled director compensation *[note 24[b]]*	**497**	419
Dividends on EIAP	**567**	1,144
Obligation under EIAP *[note 24[a]]*	**5,471**	8,135
Settlement of EIAP obligation	**(6,617)**	(7,742)
Convertible unsecured subordinated debentures *[note 21]*	**1,150**	3,133
Balance, end of year	**27,113**	26,045

[c] Accumulated other comprehensive income

Accumulated other comprehensive income comprises of the following:

Cash flow hedge reserve

The cash flow hedge reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

Defined benefit plan reserve

The defined benefit plan reserve is used to record changes in the pension liability including actuarial gains and losses and the impact of any minimum funding requirements.

[d] Dividends paid and proposed

In the year ended December 31, 2019, the Company declared dividends of $44,705 or $2.40 per common share [2018 – $40,650 or $2.40 per common share] and dividends on share compensation awards of $567 [2018 – $1,144]. In the year ended December 31, 2019, dividends paid to shareholders were financed $44,646 [2018 – $39,266] from cash on hand and nil [2018 – $1,384] by the dividend reinvestment plan [the "DRIP"].

In 2018, the Company suspended the active operation of its DRIP. Accordingly, dividends payable to shareholders will not be reinvested through the DRIP, and shareholders who were enrolled in the program will automatically receive dividend payments in the form of cash.

AGI's dividend policy is to pay cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Company's current monthly dividend rate is $0.20 per common share. Subsequent to December 31, 2019, the Company declared dividends of $0.20 per common share with record dates of January 31 and February 28.

[e] Shareholder protection rights plan

On December 20, 2010, the Company's Board of Directors adopted a Shareholders' Protection Rights Plan [the "Rights Plan"]. Specifically, the Board of Directors has implemented the Rights Plan by authorizing the issuance of one right [a "Right"] in respect of each common share [the "Common Shares"] of the Company. If a person or a Company, acting jointly or in concert, acquires [other than pursuant to an exemption available under the Rights Plan] beneficial ownership of 20% or more of the Common Shares, Rights [other than those held by such acquiring person, which will become void] will separate from the Common Shares and permit the holder thereof to purchase that number of Common Shares having an aggregate market price [as determined in accordance with the Rights Plan] on the date of consummation or occurrence of such acquisition of Common Shares equal to four times the exercise price of the Rights for an amount in cash equal to the exercise price. The exercise price of the Rights pursuant to the Rights Plan is $150 per Right.

[f] Preferred shares

On May 14, 2014, the shareholders of AGI approved the creation of two new classes of preferred shares, each issuable in one or more series without par value and each with such rights, restrictions, designations and provisions as the Company's Board of Directors may, at any time from time to time, determine, subject to an aggregate maximum number of authorized preferred shares. In particular, no preferred shares of either class may be issued if:

[i] The aggregate number of preferred shares that would then be outstanding would exceed 50% of the aggregate number of common shares then outstanding; or

[ii] The maximum aggregate number of common shares into which all of the preferred shares then outstanding could be converted in accordance with their terms, would exceed 20% of the aggregate number of common shares then outstanding; or

[iii] The aggregate number of votes, which the holders of all preferred shares then outstanding would be entitled to cast at any meeting of the shareholders of the Company [other than meetings at which only holders of preferred shares are entitled to vote], would exceed 20% of the aggregate number of votes, which the holders of all common shares then outstanding would be entitled to cast at any such meeting.

As at December 31, 2019 and December 31, 2018, no preferred shares were issued or outstanding.

24. Share-based compensation plans

[a] Equity incentive award plan ["EIAP"]

On May 11, 2012, the shareholders of AGI approved an Equity Incentive Award Plan [the "EIAP"], which authorizes the Board to grant Restricted Awards ["Restricted Awards"] and Performance Awards ["Performance Awards"] [collectively, the "Awards"] to persons who are officers, employees or consultants of the Company and its affiliates. Awards may not be granted to non-management Directors.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

On May 5, 2016, the shareholders of AGI approved an amendment to the EIAP to increase the number of common shares available for issuance to 1,215,000. At the discretion of the Board, the EIAP provides for cumulative adjustments to the number of common shares to be issued pursuant to, or the value of, Awards on each date that dividends are paid on the common shares. The EIAP provides for accelerated vesting in the event of a change in control, retirement, death or termination without cause.

Each Restricted Award will entitle the holder to be issued the number of common shares designated in the Restricted Award. The Company has an obligation to settle any amount payable in respect of a Restricted Award by common shares issued from treasury of the Company.

Each Performance Award requires the Company to deliver to the holder at the Company's discretion either the number of common shares designated in the Performance Award multiplied by a Payout Multiplier or the equivalent amount in cash. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined measures in respect of the applicable period. The Payout Multiplier may not exceed 200%. As at December 31, 2019, 600,852 [2018 – 406,006] Restricted Awards and 663,408 [2018 – 440,672] Performance Awards have been granted. The Company has accounted for the EIAP as an equity-settled plan. The fair values of the Restricted Awards and the Performance Awards were based on the share price as at the grant date and the assumption that there will be no forfeitures. During the year ended December 31, 2019, AGI expensed $5,471 for the EIAP [2018 – $7,585].

A summary of the status of the options under the EIAP is presented below:

	EIAP	
	Restricted Awards	Performance Awards
	#	#
Outstanding, January 1, 2018	156,479	213,175
Granted	68,585	33,883
Vested	(70,918)	(73,281)
Forfeited	(15,166)	(17,000)
Balance, December 31, 2018	138,980	156,777
Granted	194,846	222,736
Vested	(80,918)	(249,762)
Forfeited	(8,500)	(20,254)
Balance, December 31, 2019	**244,408**	**109,497**

There is no exercise price on the EIAP awards.

[b] Directors' deferred compensation plan ["DDCP"]

Under the DDCP, every Director receives a fixed base retainer fee, an attendance fee for meetings and a committee chair fee, if applicable, and a predetermined minimum of the total compensation must be taken in common shares. A Director will not be entitled to receive the common shares he or she has been granted until a period of three years has passed since the date of grant or until the Director ceases to be a Director, whichever is earlier. The Directors' common shares are fixed based on the fees eligible to him or her for the respective period and his or her decision to elect for cash payments for dividends related to the common shares; therefore, the Director's remuneration under the DDCP vests directly in the respective service period. The three-year period [or any shorter period until a Director ceases to be a Director] qualifies only as a waiting period to receive the vested common shares.

For the year ended December 31, 2019, an expense of $497 [2018 – $419] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 120,000, subject to adjustment in lieu of dividends, if applicable. For the year ended December 31, 2019, 9,793 [2018 – 7,820] common shares were granted under the DDCP, and as at December 31, 2019, a total of 87,946 [2018 – 78,153] common shares had been granted under the DDCP and 18,436 [2018 – 18,436] common shares had been issued.

[c] Summary of expenses recognized under share-based payment plans

For the year ended December 31, 2019, an expense of $5,968 [2018 – $8,004] was recognized for employee and Director services rendered.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

25. Other expenses (income)

	2019 $	2018 $
[a] Other operating expense (income)		
Loss on sale of property, plant and equipment	260	193
Gain on disposal of assets held for sale	—	(8)
Loss on financial instruments *[note 30]*	1,503	2,061
Other	(4,001)	(2,267)
	(2,238)	(21)
[b] Finance expense (income)		
Interest income from banks	(235)	(202)
Loss (gain) on foreign exchange	(6,682)	16,605
	(6,917)	16,403
[c] Finance costs		
Interest on overdrafts and other finance costs	1,626	617
Interest on lease liabilities	357	—
Interest, including non-cash interest, on debts and borrowings	20,272	17,097
Interest, including non-cash interest, on senior and convertible unsecured subordinated debentures *[note 21]*	22,538	19,353
	44,793	37,067
[d] Cost of goods sold		
Depreciation of property, plant and equipment	20,275	17,535
Depreciation of right-of-use assets	1,133	—
Amortization of intangible assets	5,913	2,503
Warranty provision	7,137	1,776
Cost of inventory recognized as an expense	693,589	641,691
	728,047	663,505
[e] Selling, general and administrative expenses		
Depreciation of property, plant and equipment	2,156	1,665
Depreciation of right-of-use assets	1,894	—
Amortization of intangible assets	16,817	11,328
Minimum lease payments recognized as an operating lease expense	449	3,347
Transaction costs	13,150	8,865
Selling, general and administrative	176,647	150,709
	211,113	175,914
[f] Employee benefits expense		
Wages and salaries	246,103	216,911
Share-based compensation expense *[note 24]*	5,968	8,004
Pension costs	6,430	5,336
	258,501	230,251
Included in cost of goods sold	164,057	148,342
Included in selling, general and administrative expenses	94,444	81,909
	258,501	230,251

[in thousands of Canadian dollars, except where otherwise noted and per share data]

26. Retirement benefit plans

AGI contributes to group retirement savings plans subject to maximum limits per employee. The expense recorded during the year ended December 31, 2019 was $6,430 [2018 – $5,336]. AGI expects to contribute $6,715 for the year ending December 31, 2020.

The Company has a defined benefit plan providing pension benefits to certain of its union employees and former employees. The Company operates the defined benefit pension plan in Canada. The plan is a flat-dollar defined benefit pension plan, which provides clearly defined benefits to members based on negotiated benefit rates and years of credited service. Responsibility for the governance of the plan and overseeing the plan including investment policy and performance lies with the Pension and Investment Committee. Effective May 16, 2017, new enrolments in the defined benefit pension plan were closed. All benefits earned by employees up to that date remain in place. As such, the Company continues to manage any residual obligation for past service consistent with the plan text and applicable legislation and will continue to account for the residual obligations based on IAS 19. In addition, effective May 17, 2017, the group of affected employees will receive retirement contributions from the Company on a defined contribution basis when they qualify as enrollees in the new plan.

The Company's pension committee and appointed and experienced, independent professional experts such as investment managers and actuaries assist in the management of the plan.

The Company's defined benefit pension plan will measure the respective accrued benefit obligation and the fair value of plan assets at December 31 of each year. Actuarial valuations are performed annually or triennially as required. The Company's registered defined benefit plan was last valued on December 31, 2019. The present value of the defined obligation, and the related current service cost and past service cost, was measured using the Unit Credit Method.

The liabilities were revalued at December 31, 2019. We have used the same methods and assumptions used at December 31, 2018 for the purpose of estimating the liabilities at December 31, 2019. The following assumptions were used to determine the periodic pension expense and the net present value of the accrued pension obligations:

	2019 %	2018 %
Expected long-term rate of return on plan assets	3.10	3.90
Discount rate on benefit costs	3.10	3.90
Discount rate on accrued pension and post-employment obligations	3.10	3.90
Rate of compensation increases	n/a	n/a

The weighted average duration of the defined benefit obligation as of December 31, 2019 is 15.8 years [2018 – 14.8 years]. Compensation increases were not included in the valuation of the accrued pension obligation because the accrued benefit is not a function of salary. All members receive a fixed benefit rate monthly for each year of credited service. This same benefit rate is received by all plan members regardless of salary level.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The following table outlines the key assumptions for 2019 and the sensitivity of changes in each of these assumptions on the defined benefit plan obligation. The sensitivity analysis 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.

	Increase in assumption $	Decrease in assumption $
Impact of 0.5% increase/decrease in discount rate assumption	(990,776)	1,112,290
Impact of 1-year increase/decrease in life expectancy assumption	399,629	(407,618)

The net expense of $131 [2018 – $135] for the year is included in cost of goods sold.

Information about the Company's defined benefit pension plan, in aggregate, is as follows:

	2019 $	2018 $
Plan assets		
Fair value of plan assets, beginning of year	12,641	13,794
Interest income on plan assets	483	459
Actual return on plan assets	1,572	(836)
Employer contributions	27	—
Benefits paid	(754)	(776)
Fair value of plan assets, end of year	13,969	12,641
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	12,727	13,976
Current service cost	125	124
Interest cost	489	470
Actuarial losses (gains) from changes in financial assumptions	1,533	(956)
Actuarial gains from experience adjustments	(5)	(112)
Benefits paid	(754)	(776)
Accrued benefit obligation, end of year	14,115	12,726
Net accrued benefit liability	(146)	(85)

The net accrued benefit liability of $146 [2018 – $85] is included in non-current other liabilities.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The major categories of plan assets for each category are as follows:

	2019		2018	
	$	%	$	%
Canadian equity securities	4,204	30.1	3,843	30.4
U.S. equity securities	2,431	17.4	2,301	18.2
International equity securities	2,445	17.5	2,187	17.3
Fixed-income securities	4,889	35.0	4,310	34.1
	13,969	100.0	12,641	100.0

Management's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation. The actual return on plan assets was a gain (loss) of $1,572 [2018 – $(836)].

All equity and debt securities are valued based on quoted prices in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly [i.e., as prices] or indirectly [i.e., derived from prices].

The Company's asset allocation reflects a balance of fixed-income investments, which are sensitive to interest rates, and equities, which are expected to provide higher returns and inflation-sensitive returns over the long term. The Company's targeted asset allocations are actively monitored and adjusted to align the asset mix with the liability profile of the plan.

The Company expects to make contributions of nil [2019 – $27] to the defined benefit plan in 2020. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

Through its defined benefit plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liability is calculated using a discount rate set with reference to corporate bond yields; if plan assets under-perform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long term while contributing volatility and risk in the short term.

However, the Company believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Change in fixed-income security yields

A decrease in corporate fixed-income security yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's fixed-income security holdings.

Life expectancy

The plan's obligation is to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liability.

27. Income taxes

The major components of income tax expense for the years ended December 31, 2019 and 2018 are as follows:

Consolidated statements of income

	2019 $	2018 $
Current income tax expense		
Current income tax expense	5,521	10,517
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(1,750)	1,429
Income tax expense reported in the consolidated statements of income	3,771	11,946

Consolidated statements of comprehensive income

	2019 $	2018 $
Deferred tax related to items charged or credited directly to other comprehensive income during the year		
Unrealized gain on derivatives	—	(477)
Defined benefit plan reserve	12	63
Exchange differences on translation of foreign operations	(1,479)	736
Income tax charged (credited) directly to other comprehensive income	(1,467)	322

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the years ended December 31, 2019 and 2018 is as follows:

	2019 $	2018 $
Profit before income taxes	18,404	38,564
At the Company's statutory income tax rate of 27% [2018 – 27%]	4,969	10,412
Tax rate changes	(2,736)	587
Additional deductions allowed in a foreign jurisdiction	5	(398)
Tax losses not recognized as a deferred tax asset	2,087	2,887
Foreign rate differential	(1,751)	(3,011)
Non-deductible EIAP expense	132	152
State income tax, net of federal tax benefit	388	996
Unrealized foreign exchange loss (gain)	(1,444)	2,159
IFRS 15 transition adjustment	—	(412)
Change in uncertain tax position	—	(2,305)
Permanent differences and others	2,121	879
At the effective income tax rate 20.49% [2018 – 30.98%]	3,771	11,946

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	Consolidated statements of financial position		Consolidated statements of income	
	2019	2018	2019	2018
	$	$	$	$
Inventory	—	(90)	(502)	—
Property, plant and equipment	(38,774)	(30,701)	2,181	8,305
Intangible assets	(44,388)	(35,091)	(2,150)	(6,860)
Deferred financing costs	832	722	(110)	440
Accruals and long-term provisions	9,684	7,207	(1,980)	(1,768)
Tax loss carryforwards	4,381	—	(4,381)	96
Investment tax credits	—	(627)	(627)	—
Canadian exploration expenses	—	—	—	1,641
Capitalized development expenditures	(4,667)	(2,727)	1,940	991
Convertible debentures	(1,148)	(1,775)	(627)	(568)
Derivative instruments	(60)	(456)	(396)	456
EIAP liability	1,521	3,626	3,512	444
Equity swap	(1,496)	(1,585)	(89)	(1,012)
Exchange difference on translation of foreign operations	—	—	1,479	(736)
Deferred tax expense (recovery)			(1,750)	1,429
Deferred tax liabilities, net	(74,115)	(61,497)		
Reflected in the consolidated statements of financial position as follows				
Deferred tax asset	—	455		
Deferred tax liability	(74,115)	(61,952)		
Deferred tax liabilities, net	(74,115)	(61,497)		

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Reconciliation of deferred tax liabilities, net

	2019 $	2018 $
Balance, beginning of year	**(61,497)**	(57,575)
Deferred tax recovery (expense) during the year recognized in profit or loss	**1,750**	(1,429)
Deferred tax liability set-up on business acquisition	**(17,242)**	(4,276)
Deferred tax recovery during the year recognized in common shares	**—**	1,375
Deferred tax expense during the year recognized in equity component of convertible debentures	**—**	(531)
Deferred tax recovery during the year recognized in contributed surplus	**1,407**	1,261
Deferred tax recovery (expense) during the year recognized in other comprehensive income	**1,467**	(322)
Balance, end of year	**(74,115)**	(61,497)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences and loss carryforwards become deductible. Based on the analysis of taxable temporary differences and future taxable income, management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities incurred, other than temporary differences in its Finnish operations of 5,442 Euros [2018 – 5,870 euros] and its Brazilian operations of 81,685 BRL [2018 – 63,919 BRL]. Accordingly, the Company has recorded a deferred tax asset for all other deductible temporary differences as at December 31, 2019 and as at December 31, 2018.

The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries and associate, for which a deferred tax asset has not been recognized, aggregate to $2,408 [2018 – $622].

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of federal and provincial income tax rules and regulations, and judgments as to their interpretation and application to AGI's specific situation. The amount and timing of reversals of temporary differences will also depend on AGI's future operating results, acquisitions and dispositions of assets and liabilities. The business and operations of AGI are complex, and AGI has executed a number of significant financings, acquisitions, reorganizations and business combinations over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors, as well as AGI's interpretation of and compliance with relevant tax legislation and regulations. While AGI believes that its tax filing positions are probable to be sustained, there are a number of tax filing positions that may be the subject of review by taxation authorities. Therefore, it is possible that additional taxes could be payable by AGI, and the ultimate value of AGI's income tax assets and liabilities could change in the future, and that changes to these amounts could have a material effect on these consolidated financial statements.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

There are no income tax consequences to the Company attached to the payment of dividends in either 2019 or 2018 by the Company to its shareholders.

28. Profit per share

Profit per share is based on the consolidated profit for the year divided by the weighted average number of shares outstanding during the year. Diluted profit per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents.

The following reflects the income and share data used in the basic and diluted profit per share computations:

	2019	2018
	$	$
Profit attributable to shareholders for basic and diluted profit per share	**14,633**	26,618
Basic weighted average number of shares	**18,613,273**	16,811,440
Dilutive effect of DDCP	**63,007**	54,658
Dilutive effect of EIAP	**236,250**	165,015
Diluted weighted average number of shares	**18,912,530**	17,031,113
Profit per share		
Basic	**0.79**	1.58
Diluted	**0.77**	1.56

The 2015, 2017 and 2018 Debentures were excluded from the calculation of diluted profit per share in the year ended December 31, 2019, because their effect is anti-dilutive.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

29. Statements of cash flows

[a] Net change in non-cash working capital

Cash and cash equivalents as at the date of the consolidated statements of financial position and for the purpose of the consolidated statements of cash flows relate to cash at banks and cash on hand. Cash at banks earns interest at floating rates based on daily bank deposit rates.

The net change in the non-cash working capital balances related to continuing operations is calculated as follows:

	2019	2018
	$	$
Accounts receivable	(14,778)	(33,683)
Inventory	24,060	(28,761)
Prepaid expenses and other assets	(848)	(8,241)
Accounts payable and accrued liabilities	(17,753)	3,097
Customer deposits	(13,879)	2,795
Provisions	9,613	1,776
	(13,585)	(63,017)

[in thousands of Canadian dollars, except where otherwise noted and per share data]

[b] Reconciliation of liabilities arising from financing activities

	December 31, 2018 $	Cash flows $	Non-cash changes: Acquisitions $	Conversion $	Foreign exchange $	Accretion $	Amortization $	Fair value $	Other $	December 31, 2019 $
Long-term debt	271,421	130,766	464	—	(10,604)	—	535	546	—	393,128
Convertible unsecured subordinated debentures	284,848	(51,786)	—	(25)	—	1,984	3,414	—	398	238,833
Senior unsecured subordinated debentures	—	165,402	—	—	—	—	561	—	(489)	165,474
Lease liability	8,791	(2,674)	220	—	(183)	—	—	—	3,195	9,349
Total liabilities from financing activities	565,060	241,708	684	(25)	(10,787)	1,984	4,510	546	3,104	806,784

	December 31, 2017 $	Cash flows $	Non-cash changes: Acquisitions $	Conversion $	Foreign exchange $	Accretion $	Amortization $	Fair value $	December 31, 2018 $
Long-term debt	302,802	(50,753)	738	—	16,605	—	2,029	—	271,421
Convertible unsecured subordinated debentures	286,058	4,816	—	(8,678)	—	2,205	2,510	(2,063)	284,848
Finance leases	1,002	(872)	—	—	100	—	—	—	230
Derivatives held to hedge long-term borrowings	(1,768)	(1,690)	—	—	—	—	—	1,768	(1,690)
Total liabilities from financing activities	588,094	(48,499)	738	(8,678)	16,705	2,205	4,539	(295)	554,809

30. Financial instruments and financial risk management

[a] Management of risks arising from financial instruments

AGI's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company has deposits, trade and other receivables and cash and short-term deposits that are derived directly from its operations. The Company also holds investments and enters into derivative transactions.

The Company's activities expose it to a variety of financial risks: market risk [including foreign exchange risk and interest rate risk], credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to mitigate certain risk exposures. The Company does not purchase any derivative financial instruments for speculative purposes. Risk management is the responsibility of the corporate finance function, which has the appropriate skills, experience and supervision. The Company's domestic and foreign operations, along with the corporate finance function identify, evaluate and, where appropriate, mitigate financial risks. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors. The Audit Committee reviews and monitors the Company's financial risk-taking activities and the policies and procedures that were implemented to ensure that financial risks are identified, measured and managed in accordance with Company policies.

The risks associated with the Company's financial instruments are as follows:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Components of market risk to which AGI is exposed are discussed below. Financial instruments affected by market risk include trade accounts receivable and payable, investments and derivative financial instruments.

Foreign currency risk

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. Foreign currency risk is created by fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates and exposure.

During the year ended December 31, 2019, the Company entered into a short-term forward contract that resulted in a gain of $235, which has been recorded in gain on financial instruments in the consolidated statements of income.

The Company had no outstanding foreign exchange forward contracts at December 31, 2019.

A significant part of the Company's sales is transacted in U.S. dollars and euros and, as a result, fluctuations in the rate of exchange between the U.S. dollar, the euro and Canadian dollar can have a significant effect on the Company's cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, AGI denominates a portion of its debt in U.S. dollars. As at December 31, 2019, AGI's U.S. dollar denominated debt totalled $197 million [2018 – $152 million].

AGI's sales denominated in U.S. dollars for the year ended December 31, 2019 were U.S. $424 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency was U.S. $323 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a $42.4 million increase or decrease in sales and a total increase or decrease of $32.3 million in its cost of goods sold and its selling, general and administrative expenses.

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. Furthermore, as AGI regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. AGI's Series B secured notes, Series C secured notes, convertible unsecured subordinated debentures and senior unsecured subordinated debentures outstanding at December 31, 2019 and December 31, 2018 are at a fixed rate of interest.

Interest rate swap contracts

The Company enters into interest rate swap contracts to manage its exposure to fluctuations in interest rates on its core borrowings. The interest rate swap contracts are derivative financial instruments and changes in the fair value were recognized as a gain (loss) on financial instruments in other operating income. Through these contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rates between 3.6% and 4.1%. The notional amounts are $89,354 in aggregate, resetting the last business day of each month.

The interest rate swap contracts were designated as cash flow hedges, and changes in the fair value were recognized as a component of OCI to the extent that they have been assessed to be effective. In 2018, the hedge was discontinued as the forecasted cash flows were no longer probable. Consequently, the interest rate swap was reclassified from fair value through OCI to fair value through profit or loss. During the year ended December 31, 2019, a loss of $1,466 [2018 – $78] was recorded in loss on financial instruments in other operating expense. As at December 31, 2019, the unrealized gain on the interest rate swap was $224 [2018 – $1,690].

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The open interest rate swap contracts as at December 31, 2019 are as follows for which no hedge accounting is applied:

	Maturity date	Contract rate %	Notional amount $	Unrealized gain $
Canadian dollar contracts	May 2022	3.6 – 4.1	40,000	147
U.S. dollar contracts	November 2020	3.8	38,000	77

The open interest rate swap contracts as at December 31, 2018 are as follows:

	Maturity date	Contract rate %	Notional amount $	Unrealized gain $
Canadian dollar contracts	May 2019 – 2022	3.6 – 4.3	90,000	681
U.S. dollar contracts	May 2019	3.8	38,000	1,009

Equity swap

On March 18, 2016, the Company entered into an equity swap agreement with a financial institution to manage the cash flow exposure due to fluctuations in its share price related to the EIAP.

Pursuant to this agreement, the counterparty has agreed to pay the Company the total return of the defined underlying common shares, which includes both the dividend income they may generate and any capital appreciation. In return, the Company has agreed to pay the counterparty a funding cost calculated daily based on floating rate option [CAD-BA-CDOR] plus a spread of 2.0% and any administrative fees or expenses that are incurred by the counterparty directly.

As at December 31, 2019, the equity swap agreement covered 722,000 common shares of the Company at a price of $38.76, and the agreement matures on April 6, 2021.

As at December 31, 2019, the unrealized gain on the equity swap was $5,641 [2018 – $5,959] and in the year ended December 31, 2019, the Company has recorded a loss on financial instruments of $327 [2018 – $3,739] in other operating expense *[note 25[a]]*.

Credit risk

Credit risk is the risk that a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. A substantial portion of AGI's accounts receivable is with customers in the agriculture industry and is subject to normal industry credit risks. A portion of the Company's sales and related accounts receivable are also generated from transactions with customers in overseas markets, several of which are in emerging markets such as countries in Eastern Europe and Asia. It is often common business practice for international customers to pay invoices over an extended period of time. Accounts receivable are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. The Company regularly monitors customers for changes in credit risk. The Company's credit exposure is mitigated through the use of credit practices that limit transactions according to the customer's credit quality and due to the accounts receivable being spread over a large number of customers. Trade receivables from international customers are often insured for events of non-payment through third-party export insurance. In cases where the credit quality of a customer does not meet the Company's requirements, a cash deposit or letter of credit is received before goods are shipped.

Assessments about the recoverability of financial assets, including accounts receivable, require significant judgment in determining whether there is objective evidence that a loss event has occurred and estimates of the amount and timing of future cash flows. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability to collect on its trade receivables, which is netted against the accounts receivable on the consolidated statements of financial position. Emerging markets are subject to various additional risks including currency exchange rate fluctuations, foreign economic conditions and foreign business practices. One or more of these factors could have a material effect on the future collectability of such receivables. In assessing whether objective evidence of impairment exists at each reporting period, the Company considers its past experience of collecting payments, historical loss experience, customer credit ratings and financial data as available, collateral on amounts owing including insurance coverage from export credit agencies, as well as observable changes in national or local economic conditions.

The requirement for an impairment provision is analyzed at each reporting date based on the expected credit loss model. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company does not believe that any single customer group represents a significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that AGI will encounter difficulties in meeting its financial liability obligations. AGI manages its liquidity risk through cash and debt management. In managing liquidity risk, AGI has access to committed short- and long-term debt facilities as well as to equity markets, the availability of which is dependent on market conditions. AGI believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The tables below summarize the undiscounted contractual payments of the Company's financial liabilities as at December 31, 2019 and 2018:

December 31, 2019	**Total**	**2020**	**2021**	**2022**	**2023**	**2024+**
	$	$	$	$	$	$
Accounts payable and accrued liabilities	105,378	105,378	—	—	—	—
Dividends payable	3,732	3,732	—	—	—	—
Due to vendor	8,370	4,541	3,066	763	—	—
Contingent consideration	5,270	5,270	—	—	—	—
Optionally convertible redeemable preferred shares	30,258	—	18,155	12,103	—	—
Lease liability	9,932	2,798	2,102	1,652	1,028	2,352
Term debt	395,862	722	348	208	115	394,469
Convertible unsecured subordinated debentures [includes interest]	273,323	86,813	8,063	178,447	—	—
Senior unsecured subordinated debentures [includes interest]	218,429	9,186	9,186	9,186	9,186	181,685
Total financial liability payments	1,050,554	218,440	40,920	202,359	10,329	578,506

December 31, 2018	**Total**	**2019**	**2020**	**2021**	**2022**	**2023+**
	$	$	$	$	$	$
Accounts payable and accrued liabilities	101,504	101,504	—	—	—	—
Dividends payable	3,673	3,673	—	—	—	—
Due to vendor	9,345	7,973	823	549	—	—
Contingent consideration	6,596	4,576	1,010	1,010	—	—
Term debt	349,460	14,502	14,453	14,443	14,334	291,728
Convertible unsecured subordinated debentures [includes interest]	339,632	66,281	86,814	8,064	178,473	—
Total financial liability payments	810,210	198,509	103,100	24,066	192,807	291,728

[in thousands of Canadian dollars, except where otherwise noted and per share data]

[b] Fair value

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company's financial instruments that are carried in the consolidated financial statements, as well as their level on the fair value hierarchy:

		December 31, 2019		December 31, 2018	
	Level	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets					
Amortized cost:					
Cash and cash equivalents	1	48,421	48,421	33,610	33,610
Cash held in trust and restricted cash	1	5,416	5,416	2,955	2,955
Accounts receivable	2	162,543	162,543	134,239	134,239
Note receivable	2	622	622	735	735
Fair value through profit or loss:					
Derivative instruments	2	5,865	5,865	7,649	7,649
Fair value through OCI:					
Equity investment	3	—	—	900	900
Financial liabilities					
Amortized cost:					
Interest-bearing loans and borrowings	2	402,477	402,931	271,651	269,685
Accounts payable and accrued liabilities	2	105,378	105,378	101,504	101,504
Dividends payable	2	3,732	3,732	3,673	3,673
Due to vendor	2	8,370	8,370	9,349	9,349
Contingent consideration	3	5,270	5,270	6,386	6,386
Convertible unsecured subordinated debentures	2	238,833	246,128	284,848	305,935
Senior unsecured subordinated debentures	2	165,474	166,456	—	—
Fair value through profit or loss:					
Optionally convertible redeemable preferred shares	3	26,320	26,320	—	—

During the reporting years ended December 31, 2019 and December 31, 2018, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, cash held in trust, restricted cash, accounts receivable, dividends payable, accounts payable and accrued liabilities, due to vendor, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- The fair value of unquoted instruments and loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

- The Company enters into derivative financial instruments with financial institutions with investment-grade credit ratings. Derivatives include interest rate swaps and equity swaps that are marked-to-market at each reporting period. The fair values of derivatives are determined by the derivative counterparty using a discounted cash flow technique, which incorporates various inputs including the related interest rate swap curves and/or the Company's stock price for the equity swaps.

- The fair value of contingent consideration and the OCRPS arising from business combinations is estimated by discounting future cash flows based on the probability of meeting set performance targets.

- AGI included its equity investment, which is in a private company, in Level 3 of the fair value hierarchy as it traded infrequently and has little price transparency. AGI reviews the fair value of this investment at each reporting period, and when recent arm's length market transactions are not available, management's estimate of fair value is determined using a market approach based on external information and observable conditions where possible, supplemented by internal analysis as required.

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	2019	2018
	$	$
Contingent consideration and OCRPS:		
Balance, beginning of year	6,386	9,037
Acquisitions	31,599	2,708
Fair value change	173	1,187
Reclassification to due to vendor	(4,000)	(6,849)
Exchange differences	(2,568)	303
Balance, end of year	31,590	6,386

Set out below are the significant unobservable inputs to valuation as at December 31, 2019:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Contingent consideration and OCRPS	Discounted cash flow method	• Probability of achieving earnings target	0%–100% achievement	Increase (decrease) in the probability would increase (decrease) the fair value
		• Weighted average cost of capital ["WACC"]	5.0%–9.2%	Increase (decrease) in the WACC would result in decrease (increase) in fair value

Fair value ["FV"] hierarchy

AGI uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1

The fair value measurements are classified as Level 1 in the FV hierarchy if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.

Level 2

Fair value measurements that require inputs other than quoted prices in Level 1, and for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly, are classified as Level 2 in the FV hierarchy.

Level 3

Fair value measurements that require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs are classified as Level 3 in the FV hierarchy.

Interest from financial instruments is recognized in finance costs and finance income. Foreign currency impacts for loans and receivables are reflected in finance expense.

31. Capital disclosure and management

The Company's capital structure comprises of shareholders' equity and long-term debt. AGI's objectives when managing its capital structure are to maintain and preserve its access to capital markets, continue its ability to meet its financial obligations, including the payment of dividends, and finance future organic growth and acquisitions.

AGI manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities, and as at December 31, 2019 and December 31, 2018, all of these covenants were complied with *[note 20[c]]*.

The Board of Directors does not establish quantitative capital structure targets for management, but rather promotes sustainable and profitable growth. Management monitors capital using non-GAAP financial metrics, primarily total debt to the trailing twelve months EBITDA and net debt to total shareholders' equity. There may be instances where it would be acceptable for total debt to trailing EBITDA to temporarily fall outside of the normal targets set by management such as in financing an acquisition to take advantage of growth opportunities or industry cyclicality. This would be a strategic decision recommended by management and approved by the Board of Directors with steps taken in the subsequent period to restore the Company's capital structure based on its capital management objectives.

32. Related party disclosures

Relationship between parent and subsidiaries

The main transactions between the corporate entity of the Company and its subsidiaries are providing cash funding based on the equity and convertible debt funds of AGI. Furthermore, the corporate entity of the Company is responsible for the billing and management of international contracts with external customers and the allocation of sub-projects to the different subsidiaries of the Company. Finally, the parent company provides management services to the Company entities. Between the subsidiaries, there are limited intercompany sales of inventories and services. Because all subsidiaries are currently 100% owned by AGI, these intercompany transactions are 100% eliminated on consolidation.

Other relationships

Burnet, Duckworth & Palmer LLP provides legal services to the Company, and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. During the year ended December 31, 2019, the total cost of these legal services related to general matters was $435 [2018 – $1,435], and $450 is included in accounts payable and accrued liabilities as at December 31, 2019.

These transactions are measured at the exchange amount and were incurred during the normal course of business.

[in thousands of Canadian dollars, except where otherwise noted and per share data]

Compensation of key management personnel of AGI

AGI's key management consists of 25 individuals including its CEO, CFO, its Officers and other senior management, divisional general managers and its Directors.

	2019	2018
	$	$
Short-term employee benefits	**159**	138
Termination benefits	**—**	1,770
Contributions to defined contribution plans	**172**	221
Salaries	**8,391**	7,410
Share-based payments	**5,968**	8,004
Total compensation paid to key management personnel	**14,690**	17,543

33. Reportable business segment

The Company manufactures agricultural equipment with a focus on grain and rice handling and milling, storage and conditioning products, and technology. As at December 31, 2019, aggregation of operating segments was applied to determine that the Company had only one reportable segment. The primary factors considered in the application of the aggregation criteria included the similar long-term average gross margins and growth rates across the segments, the nature of the products manufactured by the segments all being related to the handling, storage and conditioning of agricultural commodities, and the similarity in the production processes of the segments.

The Company operates primarily within three geographical areas: Canada, United States and International. The following details the sales, property, plant and equipment, goodwill, intangible assets and investment by geographical area, reconciled to the Company's consolidated financial statements:

	Sales		Property, plant and equipment, goodwill, intangible assets and equity investments	
	2019	2018	2019	2018
	$	$	$	$
Canada	**325,080**	329,778	**413,751**	407,987
United States	**421,661**	380,969	**318,613**	282,586
International	**249,046**	220,917	**265,057**	132,790
	995,787	931,664	**997,421**	823,363

The sales information above is based on the location of the customer. The Company has no single customer that represents 10% or more of the Company's sales.

34. Commitments and contingencies

[a] Contractual commitment for the purchase of property, plant and equipment

As of the reporting date, the Company has commitments to purchase property, plant and equipment of $8,488 [2018 – $9,308].

[b] Letters of credit

As at December 31, 2019, the Company has outstanding letters of credit in the amount of $16,885 [2018 – $11,020].

[c] Legal actions

The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

35. Subsequent events

On January 2, 2020, the Company redeemed its 5.00% convertible unsecured subordinated debentures due December 31, 2020 ["2015 Debentures"] in accordance with the terms of the supplemental trust indenture dated September 29, 2015 *[note 21]*.

On January 16, 2020, the Company acquired 100% of the shares outstanding of Affinity Management Ltd. ["Affinity"]. The transaction was funded from the Company's operating facilities. Affinity, headquartered in Oakville, Ontario, is a provider of software solutions to the agriculture industry under the brand name Compass® and includes a comprehensive Enterprise Resource Planning ["ERP"] system for growers and ag retailers, as well as an agronomy tool. The Compass® product suite is highly complementary to AGI's current offering and will be a key component of the full AGI SureTrack platform.

On February 13, 2020, the Company entered an agreement with a syndicate of underwriters, pursuant to which AGI will issue on a "bought deal" basis, subject to regulatory approval, $85 million aggregate principal amount of senior subordinated unsecured debentures [the "2020 Debentures"] at a price of $1,000 per Debenture (the "Offering"). On March 5, 2020, the Company closed the offering of the 2020 Debentures. AGI has also granted to the Underwriters an over-allotment option, exercisable in whole or in part for a period expiring 30 days following closing, to purchase up to an additional $12,750,000 aggregate principal amount of Debentures at the same price. If the over-allotment option is fully exercised, the total gross proceeds from the Offering to AGI will be $97.75 million.

The net proceeds of the Offering will be used to repay indebtedness and for general corporate purposes.

The Debentures will bear interest from the date of issue at 5.25% per annum, payable semi-annually in arrears on June 30 and December 31 each year commencing June 30, 2020. The Debentures will have a maturity date of December 31, 2026.

The Debentures will not be redeemable by the Company before December 31, 2022, except upon the occurrence of a change of control of the Company in accordance with the terms of the indenture [the "Indenture"] governing the Debentures. On and after December 31, 2022 and prior to December 31, 2023, the Debentures may be redeemed at the Company's option at a price equal to 103.9375% of their principal amount plus accrued and unpaid interest. On and after December 31, 2023 and prior to December 31, 2024, the Debentures may be redeemed at the Company's option at a price equal to 102.625% of their principal amount plus accrued and unpaid interest. On and after December 31, 2024 and prior to December 31, 2025, the Debentures may be redeemed at the Company's option at a price equal to 101.3125% of their principal amount plus accrued and unpaid interest. On and after December 31, 2025 and prior to maturity, the Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.

The Company will have the option to satisfy its obligation to repay the principal amount of the Debentures due at redemption or maturity by issuing and delivering that number of freely tradeable common shares in accordance with the terms of the Indenture.

The Debentures will not be convertible into common shares of the Company at the option of the holders at any time.

On March 20, 2020, the Company amended and extended the Credit Facility. Under the amended and extended Credit Facility, the revolving facilities bear interest at bankers' acceptance (BA) or London Interbank Offered Rate (LIBOR) plus 1.20% to BA or LIBOR plus 2.50%, and the swing lines bear interest at prime plus 0.20% to prime plus 1.5% per annum, in each case based on certain performance calculations. The Credit Facility matures on March 20, 2025. Collateral for the Credit Facility ranks pari passu with the collateral for the Series B and Series C Secured Notes and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.