

Unaudited interim condensed consolidated financial statements

Ag Growth International Inc.

March 31, 2020

Ag Growth International Inc.

Unaudited interim condensed consolidated statements of financial position

[in thousands of Canadian dollars]

As at

	March 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,603	48,421
Cash held in trust and restricted cash	5,601	5,416
Accounts receivable <i>[note 6]</i>	188,776	162,543
Inventory	189,371	174,356
Prepaid expenses and other assets	34,159	34,333
Current portion of note receivable	112	97
Derivative instruments <i>[note 25(b) and (c)]</i>	—	5,865
Income taxes recoverable	8,148	7,425
	<u>429,770</u>	<u>438,456</u>
Non-current assets		
Property, plant and equipment, net <i>[note 7]</i>	377,496	363,678
Right-of-use assets, net <i>[note 8]</i>	11,690	9,353
Goodwill <i>[note 9]</i>	367,061	351,573
Intangible assets, net <i>[note 10]</i>	272,276	264,858
Investment in associate <i>[note 11]</i>	17,630	17,312
Non-current accounts receivable <i>[note 6]</i>	16,066	16,182
Note receivable	561	525
	<u>1,062,780</u>	<u>1,023,481</u>
Assets held for sale <i>[note 12]</i>	970	1,043
Total assets	<u>1,493,520</u>	<u>1,462,980</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 26]</i>	126,076	105,378
Customer deposits	46,689	39,583
Dividends payable	3,741	3,732
Derivative instruments <i>[note 25(b) and (c)]</i>	371	—
Income taxes payable	2,164	2,010
Current portion of due to vendor	12,060	4,541
Current portion of contingent consideration	—	5,270
Current portion of lease liability <i>[note 14]</i>	3,123	2,562
Current portion of long-term debt <i>[note 15]</i>	45,716	693
Current portion of convertible unsecured subordinated debentures <i>[note 16]</i>	—	74,298
Provisions	18,786	17,539
	<u>258,726</u>	<u>255,606</u>
Non-current liabilities		
Other financial liabilities	794	484
Due to vendor	2,831	3,829
Derivative instruments <i>[note 25(b) and (c)]</i>	16,521	—
Optionally convertible redeemable preferred shares <i>[note 5(c)]</i>	27,837	26,320
Lease liability <i>[note 14]</i>	8,799	6,787
Long-term debt <i>[note 15]</i>	358,219	392,435
Convertible unsecured subordinated debentures <i>[note 16]</i>	165,216	164,535
Senior unsecured subordinated debentures <i>[note 17]</i>	247,789	165,474
Deferred tax liability	66,976	74,115
	<u>894,982</u>	<u>833,979</u>
Total liabilities	<u>1,153,708</u>	<u>1,089,585</u>
Shareholders' equity <i>[note 18]</i>		
Common shares	459,564	455,857
Accumulated other comprehensive income	47,668	22,375
Equity component of convertible debentures	4,427	6,707
Contributed surplus	27,029	27,113
Deficit	(198,876)	(138,657)
Total shareholders' equity	<u>339,812</u>	<u>373,395</u>
Total liabilities and shareholders' equity	<u>1,493,520</u>	<u>1,462,980</u>

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.

Unaudited interim condensed consolidated
statements of income (loss)

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

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Sales <i>[note 27]</i>	229,107	215,035
Cost of goods sold <i>[note 20[a]]</i>	167,945	151,280
Gross profit	61,162	63,755
Expenses		
Selling, general and administrative <i>[note 20[b]]</i>	61,200	51,137
Other operating expense (income) <i>[note 20[c]]</i>	23,243	(11,362)
Finance costs <i>[note 20[d]]</i>	10,819	9,899
Finance expense (income) <i>[note 20[e]]</i>	22,263	(3,740)
Share of associate's net loss <i>[note 11]</i>	1,200	—
	118,725	45,934
Profit (loss) before income taxes	(57,563)	17,821
Income tax expense (recovery) <i>[note 22]</i>		
Current	879	1,286
Deferred	(9,598)	3,313
	(8,719)	4,599
Profit (loss) for the period	(48,844)	13,222
Profit (loss) per share <i>[note 23]</i>		
Basic	(2.61)	0.71
Diluted	(2.61)	0.70

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated
statements of comprehensive loss

[in thousands of Canadian dollars]

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Profit (loss) for the period	(48,844)	13,222
Other comprehensive income (loss)		
Item that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	25,433	(13,667)
	25,433	(13,667)
Items that will not be reclassified to profit or loss		
Change in the fair value of equity investment	—	(900)
Actuarial losses on defined benefit plan	(192)	(170)
Income tax effect on defined benefit plan	52	46
	(140)	(1,024)
Other comprehensive income (loss) for the period	25,293	(14,691)
Total comprehensive loss for the period	(23,551)	(1,469)

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Three-month period ended March 31, 2020

	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, 2020	455,857	6,707	27,113	(138,657)	23,337	(900)	(62)	373,395
Loss for the period	—	—	—	(48,844)	—	—	—	(48,844)
Other comprehensive income (loss)	—	—	—	—	25,433	—	(140)	25,293
Share-based payment transactions <i>[note 18]</i>	3,707	—	(2,388)	—	—	—	—	1,319
Dividends paid to shareholders <i>[note 18[c]]</i>	—	—	—	(11,213)	—	—	—	(11,213)
Dividends on share-based compensation awards <i>[note 18[c]]</i>	—	—	—	(162)	—	—	—	(162)
Redemption of convertible unsecured subordinated debentures	—	(2,280)	2,304	—	—	—	—	24
As at March 31, 2020	459,564	4,427	27,029	(198,876)	48,770	(900)	(202)	339,812

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Three-month period ended March 31, 2019

	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 period	—	—	—	13,222	—	—	—	13,222
Other comprehensive loss	—	—	—	—	(13,667)	(900)	(124)	(14,691)
Share-based payment transactions <i>[note 18]</i>	4,162	—	(3,247)	—	—	—	—	915
Dividends paid to shareholders <i>[note 18[c]]</i>	—	—	—	(11,128)	—	—	—	(11,128)
Dividends on share-based compensation awards <i>[note 18[c]]</i>	—	—	—	(155)	—	—	—	(155)
As at March 31, 2019	454,807	8,203	22,798	(106,079)	43,750	(900)	(217)	422,362

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statements of cash flows

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

	Three-month period ended	
	March 31, 2020 \$	March 31, 2019 \$
Operating activities		
Profit (loss) before income taxes	(57,563)	17,821
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	6,393	5,196
Depreciation of right-of-use assets	912	704
Amortization of intangible assets	6,209	3,858
Loss (gain) on sale of property, plant and equipment	57	(54)
Share of associate's net loss	1,200	—
Loss on redemption of convertible debentures	746	—
Non-cash component of interest expense	1,131	1,892
Non-cash movement in derivative instruments	23,518	(10,203)
Non-cash investment tax credits	(64)	—
Share-based compensation expense	2,755	1,391
Defined benefit plan expense	33	33
Contingent consideration and due to vendor	3,226	1,848
Translation loss (gain) on foreign exchange	24,016	(6,286)
	12,569	16,200
Net change in non-cash working capital balances related to operations <i>[note 24[a]]</i>	(15,878)	(29,858)
Non-current accounts receivable	116	(736)
Long-term payables	73	—
Settlement of EIAP obligation	(1,640)	(2,098)
Income taxes paid	(1,082)	(673)
Cash used in operating activities	(5,842)	(17,165)
Investing activities		
Acquisition of property, plant and equipment	(9,927)	(10,110)
Acquisitions, net of cash acquired <i>[note 5[d]]</i>	(7,301)	(112,619)
Transfer from restricted cash	—	557
Proceeds from sale of property, plant and equipment	94	176
Development and purchase of intangible assets	(3,380)	(3,229)
Transaction costs paid and payable	(2,883)	(4,464)
Cash used in investing activities	(23,397)	(129,689)
Financing activities		
Issuance of long-term debt, net of issuance costs	102,774	128,649
Repayment of long-term debt	(116,617)	(77)
Repayment of obligation under lease liabilities	(820)	(710)
Change in interest accrued	4,127	3,734
Issuance of convertible unsecured subordinated debentures	81,192	82,800
Redemption of convertible unsecured subordinated debentures	(75,031)	—
Dividends paid in cash <i>[note 18[c]]</i>	(11,204)	(11,073)
Cash provided by (used in) financing activities	(15,579)	203,323
Net increase (decrease) in cash during the period	(44,818)	56,469
Cash and cash equivalents, beginning of period	48,421	33,610
Cash and cash equivalents, end of period	3,603	90,079
Supplemental cash flow information		
Interest paid	5,200	3,446

See accompanying notes

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

1. Organization

Ag Growth International Inc. ["AGI" or the "Company"] is a provider of solutions for the global food infrastructure, including seed, fertilizer, grain, feed, and food processing systems. 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. Statement of compliance and basis of presentation

[a] Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ["IAS"] 34, *Interim Financial Reporting* ["IAS 34"] on a basis consistent with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

The unaudited interim condensed consolidated financial statements of AGI for the three-month period ended March 31, 2020 were authorized for issuance in accordance with a resolution of the directors on May 6, 2020.

[b] Basis of preparation

The unaudited interim condensed 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, and contingent consideration resulting from business combinations, which are measured at fair value.

These unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year-end and do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2019, which are available on SEDAR at www.sedar.com.

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same as those applied by the Company in its audited annual consolidated financial statements as at and for the year ended December 31, 2019, except for the adoption of new standards and interpretations effective as at January 1, 2020. As required by IAS 34, the nature and effect of those changes are disclosed in note 3.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

3. Adoption of new accounting standards and policies

IFRS 3, Business Combinations ["IFRS 3"]

The Company adopted IFRS 3 with a date of application of January 1, 2020. 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.

The amendments are 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. Consequently, transactions that occurred in prior periods do not need to be reassessed.

The Company's adoption of IFRS 3 did not have a significant impact on the Company's unaudited interim condensed consolidated financial statements.

4. Seasonality of business

Interim period sales and earnings historically reflect some seasonality. The second and third quarters are typically the strongest primarily due to the timing of construction projects and higher in-season demand at the farm level. AGI's collections of accounts receivable are weighted towards the third and fourth quarters. This collection pattern, combined with seasonally high sales in the second and third quarters, results in accounts receivable levels increasing throughout the year and normally peaking in the second and third quarter. As a result of these working capital movements, historically, AGI's use of its operating facilities is typically highest in the first and second quarters, begins to decline in the third quarter as collections of accounts receivable increase, and is repaid in the third or fourth quarter of each year.

In addition, the outbreak of the novel strain of coronavirus ["COVID-19"] continues to have material impact on the global economic slowdown and the significant volatility and weakness of global equity markets. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. Global demand have been impacted at various levels by COVID-19 related uncertainties. The emergence of COVID-19 has had an adverse impact on the Company, including the disruption of production, its supply chain and product delivery. The Company has experienced temporary production suspensions in Italy, France, Brazil, India and North America. Engineering, design and quoting activity continued in all locations during the suspension periods. Management has undertaken appropriate steps to mitigate the disruptions; however, the full extent, depth, and trailing impacts of COVID-19 is unknown at this time including the impact on the financial results and condition of the Company in future periods.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

5. Business combinations

[a] 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 three-month period ended March 31, 2020, \$139 [2019 – \$306] related to certain terms of the purchase agreement was expensed and \$667 was paid.

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 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

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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.

The components of the purchase consideration are as follows:

	\$
Cash paid	1,000
Due to vendor	1,041
Purchase consideration	<u>2,041</u>

In 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 (recovery) related to the Improtech acquisition in the three-month period ended March 31, 2020 were \$(30) [2019 – \$110] and are included in selling, general and administrative expenses.

[b] 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	<u>23,029</u>
Post-combination expense	(7,340)
Purchase consideration	<u>15,689</u>

The \$7.3 million of post-combination expense is expected to be expensed over a three-year period, contingent on certain conditions. During the three-month period ended March 31, 2020, \$797 [2019 – \$324] related to certain terms of the purchase agreement was expensed. In addition, the earn-out target was met and as a result, the contingent consideration of \$5.1 million is payable to the vendor. Subsequent to the three-month period ended March 31, 2020, the amounts due to vendor was paid.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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:

	<u>\$</u>
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	<u>15,689</u>

The goodwill of \$13,358 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

The components of the purchase consideration are as follows:

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

In 2019, the allocation of the purchase price to acquired assets and liabilities was finalized.

Transaction costs (recovery) related to the IntelliFarms acquisition in the three-month period ended March 31, 2020 were \$(20) [2019 – \$174] and are included in selling, general and administrative expenses.

[c] 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”]	<u>26,494</u>
Purchase consideration	<u>151,268</u>

The due to vendor and OCRPS redemption value of \$31.4 million is payable based on earnings targets from 2020 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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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

	<u>\$</u>
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	<u>151,268</u>

The goodwill of \$92,297 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

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.

The components of the purchase consideration are as follows:

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

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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.

During the three-month period ended March 31, 2020, the allocation of the purchase price to acquired assets and liabilities was finalized.

Transaction costs (recovery) related to the Milltec acquisition in the three-month period ended March 31, 2020 were \$(205) [2019 – \$1,790] and are included in selling, general and administrative expenses.

[d] Affinity Management Ltd.

Effective January 16, 2020, the Company acquired 100% of the outstanding shares of Affinity Management Ltd. [“Affinity”]. Based in Canada, Affinity is a provider of software solutions to the agriculture industry under the brand name Compass®. The Compass product suite is highly complementary to AGI’s current offering and will be a key component of the full AGI SureTrack platform.

	\$
Purchase price	12,500
Cash acquired	199
Due to vendor	119
Total purchase price	<u>12,818</u>
Post-combination expense	<u>(5,000)</u>
Purchase consideration	<u>7,818</u>

The \$5 million of post-combination expense is expected to be expensed over a five-year period, contingent on certain conditions. During the three-month period ended March 31, 2020, \$571 [2019 – 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 Affinity included in the Company’s net earnings from the date of acquisition. The fair values of the assets acquired and the liabilities assumed have been determined on a provisional basis utilizing information available at the time the unaudited interim condensed consolidated financial statements were prepared. Additional information is being gathered to finalize these provisional measurements, particularly with respect to intangible assets and deferred taxes. Accordingly, the measurement of assets acquired and liabilities assumed may change upon finalization of the

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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.

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

	\$
Cash	199
Accounts receivable	18
Prepaid expenses and other assets	15
Income taxes recoverable	119
Property, plant and equipment	63
Right-of-use assets	2,066
Intangible assets	
Software	3,322
Goodwill	5,044
Accounts payable and accrued liabilities	(92)
Customer deposits	(5)
Lease liability	(2,066)
Deferred tax liability	(865)
Purchase consideration	<u>7,818</u>

The goodwill of \$5,044 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

The fair value of the accounts receivable acquired is \$18. This consists of the gross contractual value of \$20 less the estimated amount not expected to be collected of \$2.

From the date of acquisition, Affinity contributed to the results \$57 of revenue and \$1,029 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 is impracticable to disclose due to Affinity historically reporting under differing reporting standards and differing year-end.

The components of the purchase consideration are as follows:

	\$
Cash paid	7,500
Due to vendor	318
Purchase consideration	<u>7,818</u>

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

Transaction costs related to the Affinity acquisition in the three-month period ended March 31, 2020 were \$22 [2019 – nil] and are included in selling, general and administrative expenses.

6. 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:

	March 31, 2020	December 31, 2019
	\$	\$
Total accounts receivable	190,524	164,301
Allowance for doubtful accounts	(1,748)	(1,758)
	188,776	162,543
Non-current accounts receivable	16,066	16,182
Total accounts receivable, net	204,842	178,725
Of which		
Neither impaired nor past due	160,092	132,022
Not impaired and past the due date as follows		
Within 30 days	19,241	18,200
31 to 60 days	7,497	5,877
61 to 90 days	3,859	8,051
Over 90 days	15,901	16,333
Allowance for doubtful accounts	(1,748)	(1,758)
Total accounts receivable, net	204,842	178,725

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

7. Property, plant, and equipment

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	363,678	332,645
Additions	9,927	48,539
Acquisition <i>[note 5]</i>	63	21,276
Disposals	(151)	(1,052)
Transfer to right-of-use assets	—	(280)
Depreciation	(6,393)	(22,431)
Impairment	—	(187)
Exchange differences	10,372	(14,832)
Balance, end of period	377,496	363,678

8. Right-of-use assets

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	9,353	9,071
Additions	1,108	2,968
Acquisition <i>[note 5]</i>	2,066	444
Disposals	(7)	—
Depreciation	(912)	(3,027)
Exchange differences	82	(103)
Balance, end of period	11,690	9,353

9. Goodwill

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	351,573	256,619
Acquisition <i>[note 5]</i>	5,044	107,308
Exchange differences	10,444	(12,354)
Balance, end of period	367,061	351,573

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

10. Intangible assets

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	264,858	233,199
Internal development	3,380	13,257
Acquisition <i>[note 5]</i>	3,322	48,033
Amortization	(6,209)	(22,730)
Exchange differences	6,925	(6,901)
Balance, end of period	272,276	264,858

11. Investment in associate

	March 31, 2020	December 31, 2019
	\$	\$
Carrying value, beginning of period	17,312	—
Additions in the year	—	19,720
Share of net loss for the period before adjustments	(1,058)	(1,598)
Amortization of fair value adjustments	(142)	(754)
Share of net loss for the period	(1,200)	(2,352)
Share of other comprehensive loss (income)	1,518	(56)
Carrying value, end of period	17,630	17,312

12. Assets held for sale

Assets held for sale include a building in Illinois and land, grounds, and building in Brazil. As at March 31, 2020, the carrying amount of the assets held for sale is \$970.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

13. 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.

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	17,539	7,685
Warranty expense	5,862	20,725
Amounts utilized	(4,615)	(13,588)
Acquisitions	—	2,717
Balance, end of period	18,786	17,539

14. Lease liability

	Interest rate	Maturity	March 31, 2020	December 31, 2019
	%		\$	\$
Current	1.9 – 29.3	2020 - 2021	3,123	2,562
Non-current	1.9 – 29.3	2021 – 2029	8,799	6,787
Lease liability			11,922	9,349

The Company has various lease contracts that have not yet commenced as at March 31, 2020. The future lease payments for the non-cancellable lease contracts are \$710 within one year, \$4,089 within five years and \$4,744 thereafter.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

15. Long-term debt

	Interest rate %	Maturity	March 31, 2020 \$	December 31, 2019 \$
Current portion of long-term debt				
Swing line	3.8 – 6.5	2025	45,342	345
Equipment financing	Nil	2025	374	348
			<u>45,716</u>	<u>693</u>
Non-current portion of long-term debt				
Equipment financing	Nil	2025	775	773
Series B secured notes	4.4	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	35,468	32,470
Canadian Revolver	3.8 – 6.5	2025	85,533	140,511
U.S. Revolver	3.7 – 3.8	2025	214,507	196,379
			<u>361,283</u>	<u>395,133</u>
Less deferred financing costs			<u>(3,064)</u>	<u>(2,698)</u>
			<u>358,219</u>	<u>392,435</u>
Long-term debt			<u>403,935</u>	<u>393,128</u>

[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 March 31, 2020, there was \$45,342 [December 31, 2019 – \$345] 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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

[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 three-month period ended March 31, 2020 on AGI's revolver facilities was 4.34%. As at March 31, 2020, there was \$300 million [December 31, 2019 – \$337 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 25(b)]*. 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.

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 3.75 for fiscal 2020 and 3.25 thereafter, the calculation of which excludes the convertible unsecured subordinated debentures and the senior 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 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. As at March 31, 2020 and December 31, 2019, AGI was in compliance with all financial covenants. Subsequent to the three-month period ended March 31, 2020, the credit facility was amended *[note 29]*.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

16. Convertible unsecured subordinated debentures

	March 31, 2020	December 31, 2019
	\$	\$
Current portion of convertible unsecured subordinated debentures	—	74,298
Non-current portion of convertible unsecured subordinated debentures		
Principal amount	172,475	172,475
Equity component	(6,351)	(6,351)
Accretion	3,136	2,827
Financing fees, net of amortization	(4,044)	(4,416)
	165,216	164,535
Convertible unsecured subordinated debentures	165,216	238,833

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 \$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. A loss of \$746 was recorded to loss on financial instruments and the equity component of the 2015 Debentures was reclassified to contributed surplus

In 2019, the Company expensed the remaining unamortized balance of \$723 of deferred fees related to the 2015 Debentures.

17. Senior unsecured subordinated debentures

	March 31, 2020	December 31, 2019
	\$	\$
Principal amount	258,254	172,500
Financing fees, net of amortization	(10,465)	(7,026)
Senior unsecured subordinated debentures	247,789	165,474

On March 5, 2020, the Company closed the offering of \$85 million aggregate principal amount of senior subordinated unsecured debentures [the "2020 Debentures"] at a price of \$1,000 per Debenture [the "Offering"].

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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

The Debentures 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 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 [note 25[d]].

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.

18. Equity

[a] Common shares

	Shares #	Amount \$
Balance, January 1, 2019	18,363,780	450,645
Settlement of equity incentive award plan ["EIAP"] obligation	294,400	5,187
Convertible unsecured subordinated debentures	299	25
Balance, December 31, 2019	18,658,479	455,857
Settlement of EIAP obligation	47,317	3,707
Balance, March 31, 2020	18,705,796	459,564

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

[b] Contributed surplus

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	27,113	26,045
Equity-settled director compensation <i>[note 19(b)]</i>	170	497
Dividends on EIAP	162	567
Obligation under EIAP <i>[note 19(a)]</i>	2,585	5,471
Settlement of EIAP obligation	(5,305)	(6,617)
Redemption of convertible unsecured subordinated debentures	2,304	1,150
Balance, end of period	27,029	27,113

[c] Dividends paid and proposed

In the three-month period ended March 31, 2020, the Company declared dividends of \$11,213 or \$0.60 per common share [2019 – \$11,128 or \$0.60 per common share] and dividends on share-based compensation awards of \$162 [2019 – \$155]. In the three-month period ended March 31, 2019, dividends paid to shareholders of \$11,204 [2019 – \$11,073] were financed from cash on hand.

On April 14, 2020, the Company announced a reduction of its dividend to an annual level of \$0.60 per common share. At the same time, the dividend will move from monthly to quarterly payments, and accordingly the next dividend of \$0.15 per share will relate to the months of April, May and June 2020, and is expected to be declared in June 2020 and payable on July 15, 2020.

19. Share-based compensation plans

[a] EIAP

During the three-month period ended March 31, 2020, 85,452 [2019 – 125,435] Restricted Awards [“RSUs”] were granted and 58,502 Performance Awards [“PSUs”] were cancelled [2019 – granted 203,125]. As at March 31, 2020, a total of 686,304 [December 31, 2019 – 600,852] RSUs and 663,408 [December 31, 2019 – 663,408] PSUs had been granted under the plan. The fair values of the RSUs and the PSUs were based on the share price as at the grant date and the assumption that there will be no forfeitures.

During the three-month period ended March 31, 2020, AGI expensed \$2,585 for the EIAP [2019 – \$1,451].

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

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

	EIAP	
	Restricted Awards #	Performance Awards #
Balance, January 1, 2019	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
Granted	85,452	—
Vested	(39,105)	—
Cancelled	—	(58,502)
Balance, March 31, 2020	290,755	50,995

There is no exercise price on the EIAP awards.

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

For the three-month period ended March 31, 2020, an expense of \$170 [2019 – \$118] 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 three-month period ended March 31, 2020, 8,638 [2019 – 1,929] common shares were granted under the DDCP and as at March 31, 2020, a total of 96,584 [December 31, 2019 – 87,946] common shares had been granted under the DDCP and 18,436 [December 31, 2019 – 18,436] common shares had been issued.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

20. Other expenses (income)

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
[a] Cost of goods sold		
Depreciation of property, plant, and equipment	5,712	4,711
Depreciation of right-of-use assets	322	273
Amortization of intangible assets	784	438
Warranty expense	5,862	1,733
Cost of inventory recognized as an expense	155,265	144,125
	167,945	151,280
[b] Selling, general and administrative expenses		
Depreciation of property, plant, and equipment	681	485
Depreciation of right-of-use assets	590	431
Amortization of intangible assets	5,425	3,420
Minimum lease payments recognized as an operating lease expense	41	184
Transaction costs	4,514	4,761
Selling, general and administrative	49,949	41,856
	61,200	51,137
[c] Other operating loss (income)		
Net loss (gain) on disposal of property, plant and equipment	57	(54)
Loss (gain) on financial instruments	24,264	(10,438)
Other	(1,078)	(870)
	23,243	(11,362)
[d] Finance costs		
Interest on overdrafts and other finance costs	605	141
Interest, including non-cash interest, on leases	119	64
Interest, including non-cash interest, on debts and borrowings	4,943	4,262
Interest, including non-cash interest, on convertible debentures <i>[note 16]</i>	5,152	5,432
	10,819	9,899
[e] Finance expense (income)		
Interest income from banks	(59)	(52)
Loss (gain) on foreign exchange	22,322	(3,688)
	22,263	(3,740)
[f] Employee benefits expense		
Wages and salaries	65,158	58,269
Share-based payment expense <i>[notes 19[a] and [b]]</i>	2,755	1,391
Pension costs	1,748	1,643
	69,661	61,303
Included in cost of goods sold	41,465	39,387
Included in selling, general and administrative expenses	28,196	21,916
	69,661	61,303

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

21. Retirement benefit plans

During the three-month period ended March 31, 2020, the expense associated with the Company's defined pension benefit was \$33 [2019 – \$33]. At March 31, 2020, the accrued pension benefit liability was \$372 [December 31, 2019 – \$146], which is included in other financial liabilities on the unaudited interim condensed consolidated statements of financial position.

22. Income taxes

The reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the three-month periods ended March 31, 2020 and 2019 is as follows:

	<u>Three-month period ended</u>	
	<u>March 31, 2020</u>	<u>March 31, 2019</u>
	\$	\$
Profit (loss) before income taxes	(57,563)	17,821
At the Company's statutory income tax rate of 27% [2019 – 27%]	(15,542)	4,812
Tax rate changes	(334)	(53)
Additional deductions allowed in a foreign jurisdiction	5	—
Tax losses not recognized as a deferred tax asset	555	334
Foreign rate differential	235	(486)
Non-deductible EIAP expense	92	111
State income taxes, net of federal tax benefit	19	84
Unrealized foreign exchange loss (gain)	5,151	(831)
Permanent differences and others	1,100	628
Tax expense (recovery) at the effective rate of 15.15% [2019 – 25.81%]	(8,719)	4,599

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

23. Profit (loss) per share

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

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Profit (loss) attributable to shareholders for basic and diluted profit (loss) per share	<u>(48,844)</u>	13,222
Basic weighted average number of shares	18,682,359	18,494,444
Dilutive effect of DDCP	—	59,737
Dilutive effect of RSU	—	202,051
Diluted weighted average number of shares	<u>18,682,359</u>	<u>18,756,232</u>
Profit (loss) per share		
Basic	(2.61)	0.71
Diluted	<u>(2.61)</u>	<u>0.70</u>

The 2017 and 2018 Debentures were excluded from the calculation of diluted profit (loss) per share in the three-month period ended March 31, 2020 because their effect is anti-dilutive.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

24. Statement of cash flows

[a] Net change in non-cash working capital

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

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Accounts receivable	(26,215)	(11,732)
Inventory	(17,140)	(14,688)
Prepaid expenses and other assets	2,540	(2,526)
Accounts payable and accrued liabilities	16,817	2,848
Customer deposits	7,100	(4,445)
Provisions	1,020	685
	<u>(15,878)</u>	<u>(29,858)</u>

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

[b] Reconciliation of liabilities arising from financing activities

	December 31, 2019	Cash flows	Non-cash changes					March 31, 2020	
			Acquisition	Foreign exchange	Accretion	Amortization	Fair value		Other
	\$	\$	\$	\$	\$	\$	\$	\$	
Long-term debt	393,128	(13,843)	—	24,556	—	94	—	—	403,935
Convertible unsecured subordinated debentures	238,833	(75,031)	—	—	320	372	—	722	165,216
Senior unsecured subordinated debentures	165,474	81,192	—	—	—	351	754	18	247,789
Lease liabilities	9,349	(820)	2,066	227	—	—	—	1,100	11,922
Total liabilities from financing activities	806,784	(8,502)	2,066	24,783	320	817	754	1,840	828,862

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

	December 31, 2018	Cash flows	Non-cash changes					March 31, 2019	
			Acquisition	Foreign exchange	Accretion	Amortization	Fair value		Other
	\$	\$	\$	\$	\$	\$	\$	\$	
Long-term debt	271,421	128,572	464	(3,701)	—	138	608	—	397,502
Convertible unsecured subordinated debentures	284,848	—	—	—	578	1,092	—	—	286,518
Senior unsecured subordinated debentures	—	82,800	—	—	—	24	—	(700)	82,124
Lease liabilities	8,791	(710)	196	(58)	64	—	—	230	8,513
Total liabilities from financing activities	565,060	210,662	660	(3,759)	642	1,254	608	(470)	774,657

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

25. Financial instruments and financial risk management

[a] Foreign exchange contracts

To mitigate exposure to the fluctuating rate of exchange, AGI may enter into foreign exchange forward contracts and denominate a portion of its debt in U.S. dollars. As at March 31, 2020, AGI's U.S. dollar denominated debt totalled \$205 million.

The Company had no outstanding foreign exchange forward contracts at March 31, 2020.

[b] 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 \$93,911 in aggregate, resetting the last business day of each month. The contracts expire between November 2020 and May 2022.

During the three-month period ended March 31, 2020, a realized loss of \$1,511 [2019 – \$892] was recorded in loss on financial instruments in other operating expense. As at March 31, 2020, the fair value of the interest rate swap was \$(1,287) [December 31, 2019 – \$224].

[c] Equity swap

On March 18, 2016, the Company entered into an equity swap agreement with a financial institution [the "Counterparty"] 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-COOR] plus a spread of 2.0% and any administrative fees or expenses that are incurred by the Counterparty directly.

As at March 31, 2020, 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.

During the three-month ended March 31, 2020, a realized loss of \$21,256 [2019 – gain of \$11,095] was recorded in loss on financial instruments in other operating expense. As at March 31, 2020, the fair value of the equity swap was \$(15,608) [December 31, 2019 – \$5,641].

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

[d] Debenture put options

On March 5, 2020, the Company issued the 2020 Debentures. Beginning on and after December 31, 2022, the Company has the option of early redemption. At time of issuance, the Company's redemption option resulted in an embedded derivative with fair value of \$754. During the three-month period ended March 31, 2020, a loss of \$751 [2019 – nil] was recorded in loss on financial instruments in other operating expense. As at March 31, 2020, the fair value of the embedded derivative was \$3 [December 31, 2019 – nil].

[e] 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 unaudited interim condensed consolidated financial statements:

Level	March 31, 2020		December 31, 2019		
	Carrying amount	Fair value	Carrying amount	Fair value	
	\$	\$	\$	\$	
Financial assets					
<i>Amortized cost:</i>					
Cash and cash equivalents	1	3,603	3,603	48,421	48,421
Cash held in trust and restricted cash	1	5,601	5,601	5,416	5,416
Accounts receivable	2	188,776	188,776	162,543	162,543
Note receivable	2	673	673	622	622
<i>Fair value through profit or loss:</i>					
Derivative instruments	2	—	—	5,865	5,865
Financial liabilities					
<i>Amortized cost:</i>					
Interest-bearing loans and borrowings	2	415,857	412,091	402,477	402,931
Accounts payable and accrued liabilities	2	126,076	126,076	105,378	105,378
Dividends payable	2	3,741	3,741	3,732	3,732
Due to vendor	2	14,891	14,891	8,370	8,370
Contingent consideration	3	—	—	5,270	5,270
Convertible unsecured subordinated debentures	2	165,216	147,091	238,833	246,128
Senior unsecured subordinated debentures	2	247,789	220,360	165,474	166,456
<i>Fair value through profit or loss:</i>					
Derivative instruments	2	16,892	16,892	—	—
Optionally convertible redeemable preferred shares	3	27,837	27,837	26,320	26,320

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

During the three-month period ended March 31, 2020 and year ended December 31, 2019, there were no transfers between Level 1 and Level 2 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.

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

- Cash and cash equivalents, cash held in trust and 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 the embedded derivatives related to the senior unsecured subordinated debentures is determined by the Company's consultants using valuations models, which incorporates various inputs including the contractual contract terms, market interest rates and volatility.
- 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.

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

	March 31, 2020	December 31, 2019
	\$	\$
Contingent consideration and OCRPS:		
Balance, beginning of year	31,590	6,386
Acquisitions	—	31,599
Fair value change	682	173
Reclassification to due to vendor	(5,270)	(4,000)
Exchange differences	835	(2,568)
Balance, end of year	27,837	31,590

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

Set out below are the significant unobservable inputs to valuation as at March 31, 2020:

	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

26. Related party disclosures

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 three-month period ended March 31, 2020, the total cost of these legal services related to general matters was \$642 [2019 – \$265], and \$215 is included in accounts payable and accrued liabilities as at March 31, 2020.

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

27. Reportable business segment

The Company is a provider of solutions for the global food infrastructure, including seed, fertilizer, grain, feed, and food processing systems. As at March 31, 2020, 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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

The Company operates primarily within three geographical areas: Canada, United States and International. The following details the sales by geographical area, reconciled to the Company's unaudited interim condensed consolidated financial statements:

	Three-month period ended	
	March 31, 2020	March 31, 2019
	\$	\$
Sales		
Canada	68,108	77,411
United States	98,283	93,619
International	62,716	44,005
	<u>229,107</u>	<u>215,035</u>

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.

28. 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 \$11,988 [2019 – \$14,270].

[b] Letters of credit

As at March 31, 2020, the Company has outstanding letters of credit in the amount of \$27,075 [December 31, 2019 – \$16,885].

[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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2020

29. Subsequent event

On April 29, 2020 the Company amended its credit facility agreement to include Farm Credit Canada ("FCC") to its Canadian lending syndicate, increase the Company's senior revolving facility by \$50 million and create a separate one-year revolving facility of \$50 million to provide increased short-term flexibility during the COVID-19 crisis.

The amendments to the credit facility include a suspension of all financial covenant requirements for the six-month period ending October 31, 2020 as well as the ability to normalize Q1 2020 and Q2 2020 financial results for certain COVID-19 impacts when calculating trailing EBITDA in future covenant calculations. Following October 31, 2020, AGI's minimum leverage ratio covenant will return to 3.75x up to and including the calculation as at March 31, 2021. The minimum leverage ratio decreases to 3.50x for the quarter ended June 30, 2021 and returns to 3.25x thereafter. During the financial covenant suspension period AGI is subject to a minimum liquidity covenant. The maturity date of the facility remains March 20, 2025. The amendments do not impact terms of AGI's Series B and C secured notes that total \$60 million.