

Unaudited interim condensed consolidated financial statements

Ag Growth International Inc.

March 31, 2021

Ag Growth International Inc.

Unaudited interim condensed consolidated
statements of financial position

[in thousands of Canadian dollars]

As at

	March 31, 2021 \$	December 31, 2020 \$
Assets		
Current assets		
Cash and cash equivalents	48,748	62,456
Cash held in trust and restricted cash	6,540	9,616
Accounts receivable	191,596	176,316
Inventory	199,603	178,904
Prepaid expenses and other assets	41,084	36,457
Current portion of notes receivable	5,386	5,457
Income taxes recoverable	6,620	6,950
	<u>499,577</u>	<u>476,156</u>
Non-current assets		
Property, plant and equipment, net <i>[note 6]</i>	346,825	354,533
Right-of-use assets, net	14,321	14,342
Goodwill	347,001	350,669
Intangible assets, net	243,960	249,459
Investment in associate	11,652	12,878
Non-current accounts receivable	20,787	19,183
Notes receivable	455	475
Derivative instruments <i>[note 15]</i>	4,135	—
Deferred tax asset	902	964
	<u>990,038</u>	<u>1,002,503</u>
Assets held for sale	470	520
Total assets	<u>1,490,085</u>	<u>1,479,179</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	156,904	139,098
Customer deposits	56,286	46,013
Dividends payable	2,817	2,808
Derivative instruments <i>[note 15]</i>	—	6,386
Income taxes payable	4,287	4,825
Current portion of due to vendor	5,580	7,164
Current portion of lease liability	3,497	3,027
Current portion of long-term debt	440	475
Current portion of optionally convertible redeemable preferred shares <i>[note 15]</i>	18,050	17,943
Provisions <i>[note 7]</i>	75,877	83,361
	<u>323,738</u>	<u>311,100</u>
Non-current liabilities		
Other financial liabilities	1,920	2,754
Derivative instruments <i>[note 15]</i>	634	771
Due to vendor	1,491	2,247
Optionally convertible redeemable preferred shares <i>[note 15]</i>	11,102	11,028
Lease liability	13,343	13,815
Long-term debt	409,454	408,898
Convertible unsecured subordinated debentures <i>[note 15]</i>	168,040	167,319
Senior unsecured subordinated debentures	249,542	249,079
Deferred tax liability	52,370	49,031
	<u>907,896</u>	<u>904,942</u>
Total liabilities	<u>1,231,634</u>	<u>1,216,042</u>
Shareholders' equity <i>[note 8]</i>		
Common shares	3,833	1,730
Accumulated other comprehensive loss	(26,615)	(10,262)
Equity component of convertible debentures	4,427	4,427
Contributed surplus	487,361	487,540
Deficit	(210,555)	(220,298)
Total shareholders' equity	<u>258,451</u>	<u>263,137</u>
Total liabilities and shareholders' equity	<u>1,490,085</u>	<u>1,479,179</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, 2021	March 31, 2020
	\$	\$
Sales	253,702	229,107
Cost of goods sold <i>[note 10[a]]</i>	177,690	167,945
Gross profit	76,012	61,162
Expenses		
Selling, general and administrative <i>[note 10[b]]</i>	59,741	61,200
Other operating expense (income) <i>[note 10[c]]</i>	(11,343)	23,243
Finance costs <i>[note 10[d]]</i>	10,320	10,819
Finance expense (income) <i>[note 10[e]]</i>	(1,949)	22,263
Share of associate's net loss	1,077	1,200
	57,846	118,725
Profit (loss) before income taxes	18,166	(57,563)
Income tax expense (recovery) <i>[note 12]</i>		
Current	1,899	879
Deferred	3,563	(9,598)
	5,462	(8,719)
Profit (loss) for the period	12,704	(48,844)
Profit (loss) per share <i>[note 13]</i>		
Basic	0.68	(2.61)
Diluted	0.66	(2.61)

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, 2021	March 31, 2020
	\$	\$
Profit (loss) for the period	12,704	(48,844)
Other comprehensive income (loss)		
Item that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(17,503)	25,433
	(17,503)	25,433
Items that will not be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit plan	1,565	(192)
Income tax effect on defined benefit plan	(415)	52
	1,150	(140)
Other comprehensive income (loss) for the period	(16,353)	25,293
Total comprehensive loss for the period	(3,649)	(23,551)

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, 2021

	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, 2021	1,730	4,427	487,540	(220,298)	(8,938)	(900)	(424)	263,137
Profit for the period	—	—	—	12,704	—	—	—	12,704
Other comprehensive income (loss)	—	—	—	—	(17,503)	—	1,150	(16,353)
Share-based payment transactions [note 8[a] and [b]]	2,103	—	(179)	—	—	—	—	1,924
Dividends paid to shareholders [note 8[c]]	—	—	—	(2,817)	—	—	—	(2,817)
Dividends on share-based compensation awards [note 8[c]]	—	—	—	(144)	—	—	—	(144)
As at March 31, 2021	3,833	4,427	487,361	(210,555)	(26,441)	(900)	726	258,451

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 [note 8[a] and [b]]	3,707	—	(2,388)	—	—	—	—	1,319
Dividends paid to shareholders [note 8[c]]	—	—	—	(11,213)	—	—	—	(11,213)
Dividends on share-based compensation awards [note 8[c]]	—	—	—	(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 statements of cash flows

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

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Operating activities		
Profit (loss) before income taxes	18,166	(57,563)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	5,837	6,393
Depreciation of right-of-use assets	956	912
Amortization of intangible assets	6,716	6,209
Loss on sale of property, plant and equipment	119	57
Share of associate's net loss	1,077	1,200
Loss on redemption of convertible debentures	—	746
Non-cash component of interest expense	1,318	1,131
Non-cash movement in derivative instruments	(10,658)	23,518
Non-cash investment tax credits	(12)	(64)
Share-based compensation expense	1,931	2,755
Defined benefit plan expense	36	33
Employer contributions to defined benefit plan	(9)	—
Due to vendor and OCRPS	1,486	2,906
Translation loss (gain) on foreign exchange	(8,410)	24,016
	18,553	12,249
Net change in non-cash working capital balances related to operations <i>[note 14]</i>	(24,995)	(15,878)
Non-current accounts receivable	(1,604)	116
Long-term payables	(79)	73
Settlement of EIAP obligation	(247)	(1,640)
Post-combination payments	(2,717)	(1,717)
Income taxes paid	(1,487)	(1,082)
Cash used in operating activities	(12,576)	(7,879)
Investing activities		
Acquisition of property, plant and equipment	(6,173)	(9,927)
Acquisitions, net of cash acquired	—	(7,301)
Transfer from restricted cash	2,921	—
Proceeds from sale of property, plant and equipment	94	94
Development and purchase of intangible assets	(3,264)	(3,380)
Transaction costs	—	(846)
Cash used in investing activities	(6,422)	(21,360)
Financing activities		
Issuance of long-term debt, net of issuance costs	—	102,774
Repayment of long-term debt	(168)	(116,617)
Change in swing line	3,730	—
Repayment of obligation under lease liabilities	(889)	(820)
Change in interest accrued	5,425	4,127
Issuance of senior unsecured subordinated debentures	—	81,192
Redemption of convertible unsecured subordinated debentures	—	(75,031)
Dividends paid in cash <i>[note 8[c]]</i>	(2,808)	(11,204)
Cash provided by (used in) financing activities	5,290	(15,579)
Net decrease in cash during the period	(13,708)	(44,818)
Cash and cash equivalents, beginning of period	62,456	48,421
Cash and cash equivalents, end of period	48,748	3,603
Supplemental cash flow information		
Interest paid	4,200	5,200

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, 2021

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"] as issued by the International Accounting Standards Board ["IASB"] and using the same accounting policies and methods as were used for the Company's consolidated financial statements and the notes thereto for the year end December 31, 2020.

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 and optionally convertible redeemable preferred shares ["OCRPS"], 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, 2020, which are available on SEDAR at www.sedar.com.

The unaudited interim condensed consolidated financial statements of AGI for the three-month period ended March 31, 2021 were authorized for issuance in accordance with a resolution of the directors on May 11, 2021.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2021

[b] Adoption of new accounting standards and policies

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB published amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

The amendments address issues that arise from implementation of IBOR reform, where IBORs are replaced with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments also provide additional temporary relief from applying specific IAS 39 hedge accounting requirements to hedging relationships affected by IBOR reform.

The amendments are effective for fiscal years beginning on or after January 1, 2021. The Company adopted the amendment on January 1, 2021, electing to apply the practical expedient; the adoption of this standard had no impact on the Company's unaudited interim condensed consolidated financial statements.

3. Standards issued but not yet effective

Amendments to IAS 1 – Presentation of Financial Statements ["IAS 1"]

In January 2020, amendments were issued to IAS 1, which provide requirements for classifying liabilities as current or non-current. Specifically, the amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments must be applied retrospectively for annual periods beginning after January 1, 2023. The Company will assess the impact, if any, of adoption of the amendment.

Notes to unaudited interim condensed consolidated financial statements

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

March 31, 2021

Amendments to IAS 1 and IFRS Practice Statement ["PS"] 2 *Making Materiality Judgements*

In February 2021, amendments were issued to IAS 1 and IFRS PS 2, which provides guidance and examples to help entities apply materiality judgment to accounting policy disclosures. Specifically, the amendments aim to:

- replace the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
- add guidance on how to apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual periods beginning after January 1, 2023. The Company will assess the impact, if any, of adoption of the amendment.

4. Seasonality of business

Interim period sales and earnings historically reflect some seasonality as the agricultural equipment business is highly seasonal, which causes the Company's quarterly results and its cash flow to fluctuate during the year. Farmers generally purchase agricultural equipment in the spring and fall in conjunction with the major planting and harvesting seasons; as a result, 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. The Company'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. In addition, the Company's products include various materials and components purchased from others, some or all of which may be subject to wide price variation. Consistent with industry practice, the Company seeks to manage its exposure to material and component price volatility by planning and negotiating significant purchases on an annual basis and through the alignment of material input pricing with the terms of contractual sales commitments resulting in significant working capital requirements in the first and second quarters. Historically, the Company'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.

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, 2021

Impact of COVID-19 pandemic

The COVID-19 pandemic in 2020 has resulted in the significant downturn in economic activity and disruption of normal operations, stemming in part from temporary site restrictions and closures and timing of delivery of project schedules. Government authorities in jurisdictions in which the Company operates continue to enact emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-isolation and quarantine periods, social distancing, and business operating restrictions and closures. In addition, the duration and severity of the pandemic depends on the success of the vaccination campaign, its deployment acceleration, effectiveness, uptake, and acceptance ratio. These factors make the timing and extent of the recovery of the economies in the countries in which the Company has operations difficult to estimate. Therefore, although AGI operations were captured as essential services and management has undertaken appropriate steps to mitigate the disruptions, the full extent, depth, and trailing impacts of COVID-19 are unknown at this time, including the impact on the financial results and condition of the Company in future periods.

5. Reportable business segment

On January 1, 2021, the Company reorganized its business segments to better reflect changes in its operations and management structure. As a result of those changes, the Company identified three reportable segments: Farm, Commercial, and Technology, each supported by the corporate office. These segments are strategic business units that offer different products and services, and each is managed separately. Certain corporate overheads are included in the segments based on revenue. Taxes and certain other expenses are managed at a consolidated level and are not allocated to the reportable operating segments. Financial information for the comparative period has been restated to reflect the new presentation.

The operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ["CODM"] in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on adjusted earnings before income tax, depreciation, and amortization ["Adjusted EBITDA"], which is measured differently than profit (loss) from operations in the unaudited interim condensed consolidated financial statements.

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, 2021

The Company's reportable segments:

- **Farm:** AGI's Farm business includes the sale of grain and fertilizer handling equipment, aeration products and storage bins, primarily to farmers where on-farm storage practices are conducive to the sale of portable handling equipment and smaller diameter storage bins for grain and fertilizer.
- **Commercial:** AGI's Commercial business includes the sale of larger diameter storage bins, high-capacity stationary grain handling equipment, fertilizer storage and handling systems, feed handling and storage equipment, aeration products, hazard monitoring systems, automated blending systems, control systems and food processing solutions. AGI's Commercial customers include large multi-national agri-businesses, grain handlers, regional cooperatives, contractors, food and animal feed manufacturers and fertilizer blenders and distributors. Commercial equipment is used at port facilities for both the import and export of grains, inland grain terminals, corporate farms, fertilizer distribution sites, ethanol production, oilseed crushing, commercial feed mills, rice mills and flour mills.
- **Technology:** AGI's Technology business is built on a foundation of Internet of Things ["IoT"] products that are designed to monitor, operate and automate our equipment including the collection of key operation data. The Technology business offers monitoring, operation, measurement and blending controls, automation, hazard monitoring, embedded electronics, farm management, grain marketing and tools for agronomy, and Enterprise Resource Planning ["ERP"] for Agriculture retailers and grain buyers. These products are available both as standalone offerings, as well as in combination with larger farm or commercial systems from AGI.

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, 2021

The following table sets forth information by segment:

March 31, 2021	Farm	Commercial	Technology	Other ²	Consolidated
	\$	\$	\$	\$	\$
Trade Sales ¹	134,952	114,281	6,744	—	255,977
Adjusted EBITDA ¹	34,127	14,153	(1,420)	(7,776)	39,084
Loss on foreign exchange					(477)
Share-based compensation					(1,931)
Gain on financial instruments					10,658
Mergers and acquisitions expense					(437)
Other transaction and transitional costs					(3,706)
Loss on sale of property, plant and equipment					(119)
Earnings before interest, taxes, depreciation, and amortization					43,072
Finance cost					(10,320)
Depreciation and amortization					(13,509)
Share of associate's net loss					(1,077)
Profit before income taxes					18,166

¹ The CODM uses Trade Sales and Adjusted EBITDA as a measure of financial performance for assessing the performance of each of the Company's segments. Trade Sales are gross sales excluding impact of foreign exchange. Adjusted EBITDA is defined as net income before depreciation and amortization, financial expenses, operational restructuring costs and other, income taxes and share of income (loss) of associates. Trade Sales and Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS.

² Included in Other is the corporate office, which is not a reportable segment, and which provides finance, treasury, legal, human resources and other administrative support to 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, 2021

March 31, 2020	Farm	Commercial	Technology	Other ²	Consolidated
	\$	\$	\$	\$	\$
Trade Sales¹	118,849	105,529	4,497	—	228,875
Adjusted EBITDA¹	24,132	8,524	(2,000)	(5,006)	25,650
Loss on foreign exchange					(22,090)
Share-based compensation					(2,755)
Loss on financial instruments					(24,264)
Mergers and acquisitions recovery					226
Other transaction and transitional costs					(4,740)
Loss on sale of property, plant and equipment					(57)
Equipment rework and remediation					(4,000)
Earnings before interest, taxes, depreciation, and amortization					(32,030)
Finance cost					(10,819)
Depreciation and amortization					(13,514)
Share of associate's net loss					(1,200)
Loss before income taxes					(57,563)

¹ The CODM uses Trade Sales and Adjusted EBITDA as a measure of financial performance for assessing the performance of each of the Company's segments. Trade sales are gross sales excluding impact of foreign exchange. Adjusted EBITDA is defined as net income before depreciation and amortization, financial expenses, operational restructuring costs and other, income taxes and share of income (loss) of associates. Trade Sales and Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS.

² Included in Other is the corporate office, which is not a reportable segment, and which provides finance, treasury, legal, human resources and other administrative support to 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, 2021

Reconciliation of Trade Sales to sales on the unaudited interim condensed statement of income (loss) is as follows:

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Trade Sales	255,977	228,875
Foreign exchange (gain) loss	(2,275)	232
Sales	253,702	229,107

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, 2021	March 31, 2020
	\$	\$
Sales		
Canada	62,507	68,002
United States	114,694	98,180
International	76,501	62,925
	253,702	229,107

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.

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, 2021

6. Property, plant, and equipment

	March 31, 2021 \$	December 31, 2020 \$
Balance, beginning of period	354,533	363,678
Additions	6,173	28,063
Leasehold improvements received	—	2,086
Acquisition	—	63
Disposals	(213)	(610)
Transfer to right-of-use assets	—	375
Depreciation	(5,837)	(25,642)
Impairment	—	(1,957)
Exchange differences	(7,831)	(11,523)
Balance, end of period	346,825	354,533

7. 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, with the exception of the equipment rework and remediation costs.

	March 31, 2021 \$	December 31, 2020 \$
Balance, beginning of period	83,361	17,539
Additional provisions recognized	2,492	88,386
Amounts written off and utilized	(9,976)	(22,564)
Balance, end of period	75,877	83,361

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, 2021

Remediation costs

Over the period of 2019–2020, AGI entered into agreements to supply 35 large hopper bins for installation by third parties on two grain storage projects. In 2020, a bin at one of the customer facilities collapsed during commissioning, and as a result, the Company recorded a provision of \$70 million. As at March 31, 2021, the warranty provision for remediation costs is \$62.5 million [December 31, 2020 – \$69.7 million], with \$7.2 million of the provision having been utilized during the period as the remediation is underway.

In addition, while there is possibility of legal action against the Company with respect to damages, no formal claims have been filed at this time and any outcome is therefore not determinable, and no disclosure has been made with respect to any potential contingent liabilities.

Equipment rework

The provision for equipment rework relates to previously identified issues with equipment designed and supplied to the one commercial facility. As at March 31, 2021, the warranty provision for the equipment rework is \$4.0 million [December 31, 2020 – \$4.5 million], with \$525 of the provision having been utilized during the period.

8. Equity

[a] Common shares

	Shares #	Amount \$
Balance, January 1, 2020	18,658,479	455,857
Settlement of EIAP obligation	59,936	5,642
Reduction in stated capital	—	(459,769)
Balance, December 31, 2020	18,718,415	1,730
Settlement of EIAP obligation	58,719	2,103
Balance, March 31, 2021	18,777,134	3,833

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, 2021

[b] Contributed surplus

	March 31, 2021 \$	December 31, 2020 \$
Balance, beginning of period	487,540	27,113
Equity-settled director compensation <i>[note 9[b]]</i>	144	626
Dividends on EIAP	144	358
Obligation under EIAP <i>[note 9[a]]</i>	1,787	5,802
Settlement of EIAP obligation	(2,254)	(8,432)
Redemption of convertible unsecured subordinated debentures	—	2,304
Reduction in stated capital	—	459,769
Balance, end of period	487,361	487,540

[c] Dividends paid and proposed

In the three-month period ended March 31, 2021, the Company declared dividends of \$2,817 or \$0.15 per common share [2020 – \$11,213 or \$0.60 per common share] and dividends on share-based compensation awards of \$144 [2020 – \$162]. In the three-month period ended March 31, 2021, dividends paid to shareholders of \$2,808 [2020 – \$11,204] 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 moved from monthly to quarterly payments, and accordingly the dividend of \$0.15 per share relates to the months of January, February and March 2021. The dividend is payable on April 15, 2021 to common shareholders of record at the close of business on March 31, 2021.

9. Share-based compensation plans

[a] Equity Incentive Award Plan [“EIAP”]

During the three-month period ended March 31, 2021, 141,141 [2020 – 85,452] Restricted Awards [“RSUs”] were granted and 113,596 [2020 – nil] Performance Awards [“PSUs”] were granted and nil cancelled [2020 – 58,502]. 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. As at March 31, 2021, 1,377,872 shares have been granted under the EIAP.

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, 2021

During the three-month period ended March 31, 2021, AGI expensed \$1,787 for the EIAP [2020 – \$2,585].

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

	EIAP	
	Restricted Awards #	Performance Awards #
Balance, January 1, 2020	244,408	109,497
Granted	224,578	60,178
Vested	(70,582)	(7,108)
Forfeited	(6,724)	(892)
Modified	(82,952)	—
Cancelled	—	(58,501)
Balance, December 31, 2020	308,728	103,174
Granted	141,141	113,596
Vested	(38,747)	(18,878)
Forfeited	—	(26,145)
Balance, March 31, 2021	411,122	171,747

There is no exercise price on the EIAP awards.

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

For the three-month period ended March 31, 2021, an expense of \$144 [2020 – \$170] 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, 2021, 3,104 [2020 – 8,638] common shares were granted under the DDCP, and as at March 31, 2021, a total of 116,118 [December 31, 2020 – 113,013] common shares had been granted under the DDCP and 19,788 [December 31, 2020 – 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, 2021

10. Other expenses (income)

	March 31, 2021 \$	March 31, 2020 \$
[a] Cost of goods sold		
Depreciation of property, plant, and equipment	5,074	5,712
Depreciation of right-of-use assets	305	322
Amortization of intangible assets	1,287	784
Warranty expense	2,492	5,862
Cost of inventory recognized as an expense	168,532	155,265
	<u>177,690</u>	<u>167,945</u>
[b] Selling, general and administrative expenses		
Depreciation of property, plant and equipment	763	681
Depreciation of right-of-use assets	651	590
Amortization of intangible assets	5,429	5,425
Minimum lease payments recognized as an operating lease expense	15	41
Transaction costs and post-combination expense	4,143	4,514
Selling, general and administrative	48,740	49,949
	<u>59,741</u>	<u>61,200</u>
[c] Other operating expense (income)		
Net loss on disposal of property, plant and equipment	119	57
Loss (gain) on financial instruments	(10,658)	24,264
Other	(804)	(1,078)
	<u>(11,343)</u>	<u>23,243</u>
[d] Finance costs		
Interest on overdrafts and other finance costs	132	605
Interest, including non-cash interest, on leases	245	119
Interest, including non-cash interest, on debts and borrowings	3,369	4,943
Interest, including non-cash interest, on convertible debentures	6,574	5,152
	<u>10,320</u>	<u>10,819</u>
[e] Finance expense (income)		
Interest income from banks	(151)	(59)
Loss (gain) on foreign exchange	(1,798)	22,322
	<u>(1,949)</u>	<u>22,263</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, 2021

11. Retirement benefit plans

During the three-month period ended March 31, 2021, the expense associated with the Company's defined pension benefit was \$36 [2020 – \$33]. At March 31, 2021, the accrued pension benefit asset (liability) was \$768 [December 31, 2020 – \$(771)], which is included in other assets on the unaudited interim condensed consolidated statements of financial position.

12. Income taxes

The Company's effective tax rate for the three-month period ended March 31, 2021 was 30.1% [2020 – 15.1%]. The difference between the effective tax rate and the Company's domestic statutory tax rate of 26.5% [2020 – 27%] is attributable to unrealized foreign exchanges gains and (losses), non-deductible expenses, as well as differences in tax rates and deductions allowed in foreign tax jurisdictions.

13. Profit (loss) per share

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

	Three-month period ended	
	March 31, 2021	March 31, 2020
	\$	\$
Profit (loss) attributable to shareholders for basic and diluted profit (loss) per share	12,704	(48,844)
Basic weighted average number of shares	18,755,582	18,682,359
Dilutive effect of DDCP	137,869	—
Dilutive effect of RSU	313,266	—
Diluted weighted average number of shares	19,206,717	18,682,359
Profit (loss) per share		
Basic	0.68	(2.61)
Diluted	0.66	(2.61)

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, 2021

The 2017 and 2018 Debentures were excluded from the calculation of diluted profit (loss) per share in the three-month periods ended March 31, 2021 and March 31, 2020 because their effect is anti-dilutive. The DDCP and RSU 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.

14. Statement of cash flows

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, 2021	March 31, 2020
	\$	\$
Accounts receivable	(15,333)	(26,215)
Inventory	(20,634)	(17,140)
Prepaid expenses and other assets	(3,929)	2,540
Accounts payable and accrued liabilities	12,105	16,817
Customer deposits	10,273	7,100
Provisions	(7,477)	1,020
	<u>(24,995)</u>	<u>(15,878)</u>

15. Financial instruments and financial risk management

The Company's financial assets and liabilities recorded at fair value in the interim condensed consolidated financial statements have been categorized into three categories based on a fair value hierarchy. Financial assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. During the three-month period ended March 31, 2021 and year ended December 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements.

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, 2021

The following methods and assumptions were used to estimate the fair value of financial instruments:

[a] Short-term financial instruments

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

[b] Long-term debt financial 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 valuation is determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the liability. The carrying amount and fair value of the Company's long-term debt are as follows:

	March 31, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Interest-bearing loans and borrowings	409,894	406,164	409,373	405,907
Convertible unsecured subordinated debentures	168,040	174,710	167,319	171,366
Senior unsecured subordinated debentures	249,542	255,855	249,079	253,498

[c] Derivative financial instruments

Derivatives are marked-to-market at each reporting period and changes in fair value are recognized as a gain (loss) on financial instruments in other operating income. The fair values of interest rate swaps, equity swaps and foreign exchange contracts are determined using discounted cash flow techniques, using Level 2 inputs including interest rate swap curves, the Company's stock price and foreign exchange rates respectively. The fair value of the embedded derivative related to the senior unsecured subordinated debentures is determined by the Company's consultants using valuations models, which incorporate various Level 2 inputs including the contractual contract terms, market interest rates and volatility.

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, 2021

Interest rate swap contract

The Company enters into interest rate swap contracts to manage its exposure to fluctuations in interest rates on its core borrowings. Through these contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on a fixed rate of 4.1%. The notional amounts are \$40,000 in aggregate, resetting the last business day of each month. The contract expires in May 2022. During the three-month period ended March 31, 2021, an unrealized gain of \$137 [2020 – loss of \$1,511] was recorded in loss (gain) on financial instruments in other operating expense (income). As at March 31, 2021, the fair value of the interest rate swap was \$(634) [December 31, 2020 – \$(771)].

Equity swap

The Company has 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. As at March 31, 2021, the equity swap agreement covered 722,000 common shares of the Company at a price of \$38.76, and the agreement matures on May 7, 2024. During the three-month ended March 31, 2021, an unrealized gain of \$10,520 [2020 – loss of \$21,256] was recorded in loss (gain) on financial instruments in other operating expense (income). As at March 31, 2021, the fair value of the equity swap was \$4,134 [December 31, 2020 – \$(6,386)].

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, 2021, AGI's U.S. dollar denominated debt totaled \$205 million. The Company had no outstanding foreign exchange contracts at March 31, 2021.

Debenture put options

On March 5, 2020, the Company issued the 2020 Debentures with an option of early redemption beginning on and after December 31, 2022. 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, 2021, a gain of \$1 [2020 – loss of \$751] was recorded in loss (gain) on financial instruments in other operating expense (income). As at March 31, 2021, the fair value of the embedded derivative was \$1 [December 31, 2020 – nil].

[d] Other liabilities at fair value through profit (loss)

Optionally convertible redeemable preferred shares ["OCRPS"] are recorded at fair value at each reporting period, and changes in fair value are recognized as a gain (loss) on financial instruments in other operating expense (income). The fair value of the OCRPS are valued using Level 3 inputs using a discounted cash flow technique, which incorporates various inputs including the probability of meeting set performance targets.

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, 2021

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

	March 31, 2021 \$	December 31, 2020 \$
Balance, beginning of period	28,971	31,590
Fair value change	603	3,872
Reclassification to due to vendor	—	(5,270)
Exchange differences	(422)	(1,221)
Balance, end of period	29,152	28,971

Set out below are the significant unobservable inputs to valuation as at March 31, 2021:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
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”]	8.0%–10%	Increase (decrease) in the WACC would result in decrease (increase) in fair value

16. 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, 2021, the total cost of these legal services related to general matters was \$212 [2020 – \$642], and \$564 is included in accounts payable and accrued liabilities as at March 31, 2021.

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

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, 2021

17. 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 \$4,996 [December 31, 2020 – \$5,673].

[b] Letters of credit

As at March 31, 2021, the Company has outstanding letters of credit in the amount of \$18,920 [December 31, 2020 – \$23,421].

[c] Legal actions

The Company is involved in various legal matters arising in the ordinary course of business. Except as otherwise disclosed in these unaudited interim condensed consolidated financial statements, 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.

18. Subsequent events

On April 16, 2021, the Company acquired additional outstanding shares of Farmobile, Inc. ["Farmobile"] for approximately \$11 million USD pursuant to Stock Purchase agreements. The terms of the agreements facilitate acquisition of all outstanding shares of Farmobile, building on AGI's initial minority equity investment made in Farmobile in 2019. The investment was financed by cash on hand and management is in the process of compiling the acquisition information.

Farmobile, headquartered in Leawood, Kansas, is an independent agriculture technology company. Farmobile brings the market-leading, two-way, field data management device along with a robust platform for data standardization and management. The Farmobile PUC™ enables the real-time automation and standardization of critical data collection from equipment used in the field. This acquisition builds on AGI's robust IoT product portfolio as an addition to the AGI SureTrack platform.

The Company's one-year liquidity facility was stated to mature on April 29, 2021, and subsequent to March 31, 2021, the Company's liquidity agreement was incorporated into the existing revolver facility through the accordion feature. The maturity date of the revolver facility remains unchanged at March 20, 2025.