

Unaudited interim condensed consolidated financial statements

Ag Growth International Inc.

September 30, 2017

Ag Growth International Inc.

Unaudited interim condensed consolidated statements of financial position

[in thousands of Canadian dollars]

As at

	September 30, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	85,388	2,774
Cash held in trust	10,982	5,093
Accounts receivable [note 6]	113,364	81,033
Inventory	141,534	99,479
Prepaid expenses and other assets	13,973	7,734
Due from vendor	—	342
Current portion of note receivable	78	82
Income taxes recoverable	44	738
Derivative instruments [note 20[a]]	122	—
	365,485	197,275
Non-current assets		
Property, plant and equipment, net [note 7]	299,115	209,457
Goodwill [note 8]	225,471	227,450
Intangible assets, net [note 9]	207,980	197,215
Available-for-sale investment	900	900
Other assets [note 16]	81	382
Non-current accounts receivable [note 6]	3,112	—
Note receivable	686	725
Income taxes recoverable	4,179	4,079
Derivative instruments [note 20[a]]	10,813	9,289
Deferred tax asset	200	231
	752,537	649,728
Assets held for sale [note 10]	2,100	3,148
Total assets	1,120,122	850,151
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities [note 21]	102,070	64,402
Customer deposits	33,013	22,428
Dividends payable	3,227	2,956
Current portion of contingent consideration	3,011	4,023
Due to vendor	17,802	16,415
Acquisition, transaction and financing costs payable	95	262
Income taxes payable	3,832	6,411
Current portion of obligations under finance lease	1,110	353
Current portion of derivative instruments	—	862
Provisions	5,993	6,654
	170,153	124,766
Non-current liabilities		
Long-term debt [note 11]	301,301	206,849
Due to vendor	721	776
Contingent consideration	3,609	16,201
Convertible unsecured subordinated debentures [note 12]	282,861	201,210
Obligations under finance lease	417	1,379
Derivative instruments	—	715
Deferred tax liability	62,121	53,691
	651,030	480,821
Total liabilities	821,183	605,587
Shareholders' equity [note 13]		
Common shares	321,011	251,698
Accumulated other comprehensive income	30,219	56,027
Equity component of convertible debentures	9,903	6,912
Contributed surplus	19,068	16,940
Deficit	(81,262)	(87,013)
Total shareholders' equity	298,939	244,564
Total liabilities and shareholders' equity	1,120,122	850,151

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

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

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Sales	206,614	158,680	582,215	411,240
Cost of goods sold <i>[note 15[d]]</i>	148,518	109,374	411,493	283,563
Gross profit	58,096	49,306	170,722	127,677
Expenses				
Selling, general and administrative <i>[note 15[e]]</i>	35,611	26,491	113,060	80,674
Other operating expense (income) <i>[note 15[a]]</i>	(147)	(2,393)	(3,670)	(6,625)
Impairment charge <i>[note 10]</i>	645	263	645	4,059
Finance costs <i>[note 15[c]]</i>	9,284	6,058	24,736	17,944
Finance expense (income) <i>[note 15[b]]</i>	(7,552)	270	(13,521)	(1,847)
	37,841	30,689	121,250	94,205
Profit from continuing operations before income taxes	20,255	18,617	49,472	33,472
Income tax expense (recovery) <i>[note 17]</i>				
Current	1,541	4,426	5,725	10,230
Deferred	3,125	1,239	8,308	(212)
	4,666	5,665	14,033	10,018
Profit from continuing operations	15,589	12,952	35,439	23,454
Profit (loss) from discontinued operations, net of income taxes <i>[note 5]</i>	(1)	82	25	562
Profit for the period	15,588	13,034	35,464	24,016
Profit per share from continuing operations <i>[note 18]</i>				
Basic	0.97	0.87	2.24	1.60
Diluted	0.92	0.84	2.18	1.57
Profit per share from discontinued operations <i>[note 18]</i>				
Basic	0.00	0.01	0.00	0.04
Diluted	0.00	0.01	0.00	0.04
Profit per share <i>[note 18]</i>				
Basic	0.97	0.88	2.24	1.64
Diluted	0.92	0.85	2.18	1.61

See accompanying notes

Ag Growth International Inc.

**Unaudited interim condensed consolidated
statements of comprehensive income**

[in thousands of Canadian dollars]

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Profit for the period	15,588	13,034	35,464	24,016
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss				
Change in fair value of derivatives designated as cash flow hedges	1,105	(470)	1,948	6,776
Losses on derivatives designated as cash flow hedges recognized in net earnings in the current period	19	3,824	877	10,482
Exchange differences on translation of foreign operations	(13,370)	1,496	(27,429)	(7,467)
Income tax effect on cash flow hedges	(310)	(906)	(763)	(4,660)
Other comprehensive income (loss) from discontinued operations <i>[note 5]</i>	(1)	54	(202)	(246)
	(12,557)	3,998	(25,569)	4,885
Items that will not be reclassified to profit or loss				
Actuarial gain (loss) on defined benefit plans	909	(100)	(327)	(1,224)
Income tax effect on defined benefit plans	(246)	27	88	331
	663	(73)	(239)	(893)
Other comprehensive income (loss) for the period	(11,894)	3,925	(25,808)	3,992
Total comprehensive income for the period	3,694	16,959	9,656	28,008

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2017

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Cash flow hedge reserve \$	Put option reserve \$	Foreign currency reserve \$	Defined benefit plan reserve \$	Total equity \$
As at January 1, 2017	251,698	6,912	16,940	(87,013)	(1,160)	—	56,769	418	244,564
Profit for the period	—	—	—	35,464	—	—	—	—	35,464
Other comprehensive income (loss)	—	—	—	—	1,997	65	(27,631)	(239)	(25,808)
Share-based payment transactions <i>[notes 13[a]] and 13[b]]</i>	5,300	—	2,128	—	—	—	—	—	7,428
Dividend reinvestment plan <i>[note 13[c]]</i>	3,509	—	—	—	—	—	—	—	3,509
Dividends to shareholders <i>[note 13[c]]</i>	—	—	—	(28,675)	—	—	—	—	(28,675)
Dividends on share-based compensation awards <i>[note 13[c]]</i>	—	—	—	(1,038)	—	—	—	—	(1,038)
Dividend reinvestment plan costs <i>[note 13[c]]</i>	(27)	—	—	—	—	—	—	—	(27)
Common share issuance <i>[note 13[a]]</i>	60,436	—	—	—	—	—	—	—	60,436
Issuance of convertible unsecured subordinated debentures <i>[note 12]</i>	—	2,991	—	—	—	—	—	—	2,991
Conversion of convertible unsecured subordinated debentures <i>[note 12]</i>	95	—	—	—	—	—	—	—	95
As at September 30, 2017	321,011	9,903	19,068	(81,262)	837	65	29,138	179	298,939

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2016

	Common shares	Equity component of convertible debentures	Contributed surplus	Deficit	Cash flow hedge reserve	Foreign currency reserve	Defined benefit plan reserve	Total equity
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2016	244,840	6,912	10,193	(66,787)	(17,358)	59,761	157	237,718
Profit for the period	—	—	—	24,016	—	—	—	24,016
Other comprehensive income (loss)	—	—	—	—	12,598	(7,713)	(893)	3,992
Share-based payment transactions <i>[notes 13[a]] and 13[b]]</i>	1,640	—	4,657	—	—	—	—	6,297
Dividend reinvestment plan <i>[note 13[c]]</i>	3,976	—	—	—	—	—	—	3,976
Dividends to shareholders <i>[note 13[c]]</i>	—	—	—	(26,432)	—	—	—	(26,432)
Dividends on share-based compensation awards <i>[note 13[c]]</i>	—	—	—	(1,399)	—	—	—	(1,399)
As at September 30, 2016	250,456	6,912	14,850	(70,602)	(4,760)	52,048	(736)	248,168

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		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Operating activities				
Profit before income taxes for the period	20,255	18,617	49,472	33,472
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	4,415	2,945	11,819	8,475
Amortization of intangible assets	3,179	2,585	10,487	8,464
Non-cash investment tax credit	—	(68)	—	(68)
Translation gain on foreign exchange	(10,860)	(719)	(21,593)	(5,619)
Non-cash component of interest expense	1,435	1,099	3,906	3,252
Share-based compensation expense	1,552	1,755	6,434	5,075
Gain on sale of property, plant and equipment	(23)	(131)	(11)	(143)
Gain on sale of asset held for sale	(955)	—	(955)	(16)
Defined benefit plan expense	29	157	248	470
Employer contribution to defined benefit plans	(42)	(126)	(274)	(347)
Non-cash movement in derivative instruments	2,255	(1,735)	(346)	(5,160)
Dividends receivable on equity swap	100	—	—	(100)
Dividends on share-based compensation	—	—	—	(55)
Contingent consideration	79	491	792	940
Non-cash transaction costs	—	—	2,731	—
Equipment provided to vendor	(782)	—	(1,127)	—
Impairment charge	645	263	645	4,059
	21,282	25,133	62,228	52,699
Net change in non-cash working capital balances related to operations [note 19[a]]	10,911	9,543	710	(5,977)
Non-current accounts receivable	(1,971)	—	(3,112)	—
Put option costs	—	—	(48)	—
Income taxes paid	575	(5,010)	(7,248)	(6,073)
Cash provided by operating activities	30,797	29,666	52,530	40,649
Investing activities				
Acquisition of property, plant and equipment	(4,715)	(16,970)	(41,310)	(20,547)
Acquisition of Global, net of cash acquired [note 4[e]]	—	—	(133,706)	—
Acquisition of Entringer, net of cash acquired [note 4[a]]	—	1,129	—	(8,582)
Acquisition of NuVision [note 4[b]]	—	—	—	(6,000)
Acquisition of European subsidiary	—	—	—	(8,775)
Acquisition of Mitchell [note 4[c]]	—	(16,300)	—	(16,300)
Transfer to cash held in trust	—	—	(6,661)	—
Transaction costs paid and payable	(10,403)	117	(14,967)	(938)
Proceeds from sale of property, plant and equipment	266	173	556	412
Proceeds from sale of assets held for sale	4,069	—	4,069	1,202
Proceeds on disposal of business	—	4,102	—	7,209
Development and purchase of intangible assets	(859)	(949)	(2,828)	(2,271)
Cash used in investing activities	(11,642)	(28,698)	(194,847)	(54,590)
Financing activities				
Repayment of obligations under capital lease	(95)	(24)	(205)	(246)
Issuance of long-term debt, net of issuance costs	(33)	15,000	107,454	14,990
Issuance of convertible unsecured subordinated debentures, net of fees [note 12]	80	—	82,387	—
Common share issuance, net of issuance costs	(394)	—	60,436	—
Dividends paid in cash	(8,504)	(7,614)	(25,166)	(22,456)
Cash provided by (used in) financing activities	(8,946)	7,362	224,906	(7,712)
Net increase (decrease) in cash and cash equivalents from continuing operations	10,209	8,330	82,589	(21,653)
Net increase (decrease) in cash and cash equivalents from discontinued operations [note 5]	(1)	(61)	25	(186)
Net increase (decrease) in cash and cash equivalents during the period	10,208	8,269	82,614	(21,839)
Cash and cash equivalents, beginning of period	75,180	28,126	2,774	58,234
Cash and cash equivalents, end of period	85,388	36,395	85,388	36,395
Supplemental cash flow information				
Interest paid	3,547	2,296	15,334	12,296

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]

September 30, 2017

1. Organization

Ag Growth International Inc. ["AGI" or the "Company"] conducts business in the grain and fertilizer handling, storage and conditioning market. Ag Growth International Inc. 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* 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 the Company for the three-month and nine-month periods ended September 30, 2017 were authorized for issuance in accordance with a resolution of the directors on November 9, 2017.

[b] Basis of presentation

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, available-for-sale investments and contingent consideration, 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, 2016, 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, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017. As required by IAS 34, the nature and effect of those changes are disclosed below.

Amendments to IAS 7, Statement of Cash Flows

The IASB issued amendments to IAS 7, *Statement of Cash Flows*, which were effective as of January 1, 2017. The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments require additional disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The adoption of these amendments has resulted in additional disclosures 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]

September 30, 2017

[c] Standards issued but not yet effective

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

Financial instruments: classification and measurement

In July 2014, the IASB amended IFRS 9, *Financial Instruments* ["IFRS 9"] to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company, with early application permitted. The Company is currently evaluating the impact of adopting this standard on its unaudited interim condensed consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"], issued by the IASB in May 2014, is applicable to all revenue contracts and provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. The core principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively [for example, service revenue and contract modifications] and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company has commenced its assessment of IFRS 15 and developed its implementation project plan. The Company has identified and reviewed its significant revenue contracts and is in the process of assessing the quantitative impact as a result of the adoption of IFRS 15. The Company will continue its review and finalize quantifying the effects in Q4 of 2017.

Leases

In January 2016, the IASB released IFRS 16, *Leases* ["IFRS 16"], to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 replaces IAS 17, *Leases*, and related Interpretations. The standard will be effective for the Company on January 1, 2019, with earlier application permitted only if the Company applies IFRS 15. The Company has not yet assessed the impact of the adoption of this standard on its unaudited interim condensed consolidated financial statements.

Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* ["IFRS 2"], clarifying how to account for certain types of share-based payment transactions. The amendments will apply on or after January 1, 2018 for the Company. The Company is currently evaluating the impact of the amendments to IFRS 2 on its 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]

September 30, 2017

3. 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 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. As at September 30, 2017, AGI did not require use of its operating facilities as cash proceeds from financing activities in 2017 exceeded investing requirements, resulting in a higher than typical cash balance.

4. Business combinations

[a] Entringer Industrial S.A. ["Entringer"]

Effective March 9, 2016, the Company acquired 100% of the outstanding shares of Entringer, a Brazilian-based manufacturer of grain bins, bucket elevators, dryers and cleaners. The acquisition of Entringer provides a strategic position for AGI's entry into the expanding agricultural market in Brazil.

The purchase has been accounted for by the acquisition method, with the results of Entringer included in the Company's net earnings from the date of acquisition. The assets and liabilities of Entringer on the date of acquisition have been recorded in the unaudited interim condensed consolidated financial statements at their estimated fair values:

	\$
Cash and cash equivalents	—
Accounts receivable	1,246
Inventory	748
Prepaid expenses and other assets	160
Property, plant and equipment	4,123
Intangible assets	
Distribution network	443
Brand name	968
Goodwill	8,636
Accounts payable and accrued liabilities	(4,198)
Income taxes payable	(500)
Provisions	(250)
Deferred tax liability	(94)
Other liabilities	(301)
Purchase consideration	10,981

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]

September 30, 2017

The impacts on the cash flows on the acquisition of Entringer are as follows:

	\$
Cash paid	9,342
Due to vendor	1,639
Purchase consideration	<u>10,981</u>

During the three-month period ended March 31, 2017, the allocation of the purchase price to acquired assets and liabilities was finalized.

Transaction costs related to the Entringer acquisition in the three- and nine-month periods ended September 30, 2017 were nil and \$186, respectively [2016 – \$166 and \$372], and are included in selling, general and administrative expenses.

During the three-month period ended September 30, 2017, the \$1.6 million due to vendor balance was paid in full.

[b] NuVision Industries Inc. [“NuVision”]

Effective April 1, 2016, the Company acquired 100% of the outstanding shares of NuVision, a Canadian-based designer and builder of complete turnkey fertilizer blending plants and material handling facilities. The acquisition of NuVision furthers AGI's strategic entry into the fertilizer sector.

The purchase has been accounted for by the acquisition method, with the results of NuVision included in the Company's net earnings from the date of acquisition. The assets and liabilities of NuVision on the date of acquisition have been recorded in the unaudited interim condensed consolidated financial statements at their estimated fair values:

	\$
Cash	56
Accounts receivable	3,604
Inventory	1,205
Prepaid expenses and other assets	35
Property, plant and equipment	492
Intangible assets	
Distribution network	6,408
Brand name	3,627
Order backlog	741
Goodwill	11,039
Accounts payable and accrued liabilities	(2,590)
Customer deposits	(1,476)
Income taxes payable	(327)
Provisions	(75)
Deferred tax liability	(2,915)
Purchase consideration	<u>19,824</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]

September 30, 2017

The impacts on the cash flows on the acquisition of NuVision are as follows:

	\$
Cash paid	6,000
Fair value of equipment to be provided to vendor	6,000
Contingent consideration	8,166
Due from vendor	(342)
Purchase consideration	<u>19,824</u>

During the three-month period ended March 31, 2017, the allocation of the purchase price to acquired assets and liabilities was finalized.

Transaction costs related to the NuVision acquisition in the three- and nine-month periods ended September 30, 2017 were nil and \$13, respectively [2016 – \$14 and \$80], and are included in selling, general and administrative expenses.

The contingent consideration is based on NuVision's earnings in 2015, 2016, 2017 and 2018. Payments totaling \$14 million between 2017 and 2019 would be required if NuVision meets the targets. The Company believes the likelihood of the maximum payment is moderate. The present value of the contingent consideration was determined using a 5% discount rate. \$1,348 was recorded in current liabilities and \$6,818 was recorded in non-current liabilities as at the date of acquisition.

During the three-month period ended September 30, 2017, the Company finalized a settlement with the vendor of NuVision that resulted in the elimination of all contingent consideration and all amounts due from vendor. As a result of the settlement, the Company eliminated the existing contingent consideration accrual of \$9,466 and the amount due from vendor of \$342. The settlement also resulted in the Company recording a new \$12,150 due to vendor and the increase in the amount ultimately payable to the vendor was recorded in selling, general and administrative expenses in the three-month period ended June 30, 2017.

A \$3.5 million payment was made to the vendor in the three-month period ended September 30, 2017. The remaining balance will be settled in equipment provided to the vendor.

[c] Mitchell Mill Systems Canada Ltd. and Mitchell Mill Systems USA

Effective July 18, 2016, the Company acquired 100% of the outstanding shares of Mitchell Mill Systems Canada Ltd., and its U.S. affiliate Mitchell Mill Systems USA [collectively, "Mitchell"]. Based in Canada with a second facility in the U.S., Mitchell manufactures handling equipment for grain, fertilizer, animal feed, food processing and industrial applications. The acquisition expands AGI's commercial business into eastern Canada and the U.S. and also provides an expanded product 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]

September 30, 2017

The purchase has been accounted for by the acquisition method, with the results of Mitchell included in the Company's net earnings from the date of acquisition. The assets and liabilities of Mitchell on the date of acquisition have been recorded in the unaudited interim condensed consolidated financial statements at their estimated fair values:

	\$
Accounts receivable	6,184
Inventory	3,319
Prepaid expenses and other assets	95
Property, plant and equipment	6,923
Intangible assets	
Brand name	3,607
Distribution network	6,485
Order backlog	223
Goodwill	7,806
Accounts payable and accrued liabilities	(1,977)
Customer deposits	(1,340)
Income taxes payable	(483)
Provisions	(100)
Deferred tax liability	(4,374)
Purchase consideration	<u>26,368</u>

The impacts on the cash flows on the acquisition of Mitchell are as follows:

	\$
Cash paid	16,300
Due to vendor	500
Contingent consideration	9,091
Working capital adjustment payable	477
Purchase consideration	<u>26,368</u>

During the three-month period ended June 30, 2017, the allocation of the purchase price to acquired assets and liabilities was finalized.

Transaction costs related to the Mitchell acquisition in the three- and nine-month periods ended September 30, 2017 were nil and nil, respectively [2016 – \$112 and \$231], and are included in selling, general and administrative expenses.

The contingent consideration is based on Mitchell meeting predetermined earnings targets in 2017 through 2019. Future maximum payments of \$4,200 in 2017, \$4,200 in 2018 and \$4,800 in 2019 will be required if Mitchell meets the targets. The Company believes the likelihood of the maximum payment is moderate. The present value 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]

September 30, 2017

contingent consideration was determined using a 5% discount rate. \$3,914 was recorded in current liabilities and \$5,177 was recorded in non-current liabilities as at the date of acquisition.

During the three-month period ended September 30, 2017, Mitchell met its 2017 predetermined earnings target and a payment of \$3.0 million was made to the vendors. In addition, \$500 due to vendor recorded at acquisition was paid in full.

[d] Yargus Manufacturing Inc.

Effective November 18, 2016, the Company acquired 100% of the outstanding shares of Yargus Manufacturing Inc. and selected assets of the real estate holding company Clark Center Properties Inc. [collectively, "Yargus"]. Based in the U.S., Yargus manufactures handling equipment for grain, fertilizer, feed, food processing and industrial applications. The acquisition continues AGI's commercial business expansion into the U.S. and also provides an expanded product offering.

The purchase has been accounted for by the acquisition method, with the results of Yargus included in the Company's net earnings from the date of acquisition. The assets and liabilities of Yargus on the date of acquisition have been recorded in the unaudited interim condensed consolidated financial statements at their estimated fair values:

	\$
Accounts receivable	2,901
Inventory	7,226
Prepaid expenses and other assets	443
Property, plant and equipment	13,120
Intangible assets	
Brand name	12,868
Distribution network	6,572
Order backlog	2,556
Goodwill	28,783
Bank indebtedness	(91)
Accounts payable and accrued liabilities	(8,105)
Customer deposits	(5,595)
Deferred revenue	(1,723)
Due to vendor	(606)
Provisions	(540)
Capital leases	(597)
Notes payable	(98)
Deferred tax liability	1,083
Purchase consideration	<u>58,197</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]

September 30, 2017

During the measurement period, commission liabilities relating to projects completed prior to acquisition were identified in the amount of \$256. As well, \$89 of revenue was added to accounts receivable for project billings that should have occurred prior to acquisition. These two items resulted in a net increase to goodwill of \$167 in the three-month period ended March 31, 2017.

In addition, estimated tax amounts included in the purchase price related to a tax adjustment clause were finalized in the quarter. This has resulted in a \$1,679 decrease to goodwill and an offsetting \$1,679 decrease in due to vendor in the three-month period ended September 30, 2017.

The impacts on the cash flows on the acquisition of Yargus are as follows:

	\$
Purchase consideration	58,197
Add: bank indebtedness acquired	91
Less cash held in trust	(5,093)
Purchase consideration transferred	<u>53,195</u>

The allocation of the purchase price to acquired assets and liabilities is preliminary, utilizing information available at the time the unaudited interim condensed consolidated financial statements were prepared. The final allocation of the purchase price and the working capital adjustment may change when more information becomes available.

Transaction costs related to the Yargus acquisition in the three- and nine-month periods ended September 30, 2017 were \$13 and \$219, respectively [2016 – nil and nil], and are included in selling, general and administrative expenses.

[e] Global Industries, Inc.

Effective April 4, 2017, the Company acquired 100% of the outstanding shares of Global Industries, Inc. ["Global"]. Based in the U.S., Global manufactures grain storage bins, portable and stationary grain handling equipment, grain drying and aeration equipment, structural components and steel buildings. Global has four divisions located in Nebraska and Kansas, production capacity in South Africa and warehouses in the U.S., Europe, Australia and Africa. The acquisition expands AGI's North American and international grain handling, drying and storage platforms.

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]

September 30, 2017

The purchase has been accounted for by the acquisition method with the results of Global included in the net earnings from the date of acquisition. The assets and liabilities of Global on the date of acquisition have been recorded in the unaudited interim condensed consolidated financial statements at their estimated fair values:

	\$
Cash and cash equivalents	1,935
Accounts receivable	15,118
Inventory [and used equipment]	43,862
Prepaid expenses and other assets	4,773
Property, plant and equipment	74,535
Intangible assets	
Brand name	9,296
Distribution network	11,563
Order backlog	1,406
Goodwill	4,303
Deferred tax asset	819
Accounts payable and accrued liabilities	(19,462)
Customer deposits	(5,240)
Purchase consideration	<u>142,908</u>

During the measurement period, appraisals on land and building were finalized, resulting in a \$2,012 decrease to property, plant, and equipment, offset by a \$1,605 increase to goodwill and \$386 increase to intangible assets in the three-month period ended September 30, 2017.

The goodwill of \$4,303 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

The fair value of the accounts receivable acquired is \$15,118. This consists of the gross contractual value of \$15,763 less the estimated amount not expected to be collected of \$645.

From the date of acquisition, Global reported a net loss of \$4,073 including certain costs related to the transaction. If the acquisition had taken place as at January 1, 2017, revenue from continuing operations in 2017 would have increased by an additional \$42,577 and profit from continuing operations in 2017 would have increased by an additional \$2.

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]

September 30, 2017

The impacts on the cash flows on the acquisition of Global are as follows:

	\$
Cash paid, net of cash acquired	133,706
Cash acquired	1,935
Cash held in trust	6,661
Due to vendor	606
Purchase consideration	<u>142,908</u>

The allocation of the purchase price to acquired assets and liabilities is preliminary, utilizing information available at the time the unaudited interim condensed consolidated financial statements were prepared. The final allocation of the purchase price may change when more information becomes available.

Costs related to the Global acquisition in the three- and nine-month periods ended September 30, 2017 were \$31 and \$539, respectively [2016 – nil and nil], and are included in selling, general and administrative expenses.

5. Discontinued operations

During the second quarter of 2016, the Company sold selected assets of its wholly owned subsidiary Mepu Oy ["Mepu"] for proceeds of \$3,107, of which \$1,050 is payable in ten annual payments of \$105 that commenced in June 2017.

During the third quarter of 2016, the Company sold selected assets of its wholly owned subsidiaries Applegate Livestock Equipment Inc. and Applegate Trucking Inc. [collectively, "Applegate"] for cash proceeds of \$4,102.

The financial results attributable to Mepu and Applegate have been presented as discontinued operations.

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]

September 30, 2017

The results of discontinued operations for the three- and nine- month periods ended September 30, 2017 are as follows:

Statement of profit (loss) from discontinued operations

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Sales	—	1,755	—	15,320
Cost of goods sold	15	1,515	16	12,795
Gross profit	(15)	240	(16)	2,525
Expenses				
Selling, general and administrative (recovery)	(14)	304	(39)	2,916
Other operating income	—	(1)	(2)	(12)
Impairment recovery	—	(145)	—	(941)
	(14)	158	(41)	1,963
Profit (loss) from discontinued operations for the period	(1)	82	25	562

Statement of comprehensive income (loss) from discontinued operations

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Profit (loss) from discontinued operations for the period	(1)	82	25	562
Other comprehensive income (loss)				
Item that may be reclassified subsequently to profit or loss				
Exchange difference on translating foreign operations	(1)	54	(202)	(246)
Other comprehensive income (loss) from discontinued operations for the period	(1)	54	(202)	(246)
Total comprehensive income (loss) from discontinued operations for the period	(2)	136	(177)	316

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]

September 30, 2017

Statement of cash flows from discontinued operations for the period

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Cash provided by (used in) operating activities	(1)	(61)	25	(75)
Cash used in investing activities	—	—	—	(111)
Cash provided by (used in) discontinued operations	(1)	(61)	25	(186)

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:

	September 30, 2017	December 31, 2016
	\$	\$
Total current accounts receivable	115,010	82,852
Less allowance for doubtful accounts	(1,646)	(1,819)
	113,364	81,033
Non-current accounts receivable	3,112	—
Total accounts receivable, net	116,476	81,033
Of which		
Neither impaired nor past due	80,032	54,790
Not impaired and past the due date as follows		
Within 30 days	19,847	13,844
31 to 60 days	3,958	3,227
61 to 90 days	3,330	2,312
Over 90 days	10,955	8,679
Less allowance for doubtful accounts	(1,646)	(1,819)
Total accounts receivable, net	116,476	81,033

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]

September 30, 2017

7. Property, plant, and equipment

	September 30, 2017	December 31, 2016
	\$	\$
Balance, beginning of period	209,457	165,687
Additions	41,310	40,203
Acquisition <i>[note 4]</i>	74,535	24,657
Disposals	(551)	(708)
Depreciation	(11,819)	(10,923)
Impairment	—	(2,439)
Discontinued operations	—	(4,040)
Exchange differences	(13,817)	(2,980)
Balance, end of period	299,115	209,457

8. Goodwill

	September 30, 2017	December 31, 2016
	\$	\$
Balance, beginning of period	227,450	170,262
Acquisition <i>[note 4]</i>	2,791	57,472
Impairment	—	(67)
Exchange differences	(4,770)	(217)
Balance, end of period	225,471	227,450

9. Intangible assets

	September 30, 2017	December 31, 2016
	\$	\$
Balance, beginning of period	197,215	163,781
Internal development	2,828	2,938
Acquisition <i>[note 4]</i>	22,265	44,514
Amortization	(10,487)	(11,061)
Impairment	—	(2,059)
Discontinued operations	—	(51)
Exchange differences	(3,841)	(847)
Balance, end of period	207,980	197,215

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]

September 30, 2017

10. Assets held for sale

As at September 30, 2017, assets held for sale consist of land, grounds, buildings and selected equipment in Regina, Saskatchewan. During the quarter ended September 30, 2017, an impairment of \$645 was recorded to reduce the carrying value of the assets held for sale to \$2,100. In addition, during the quarter ended September 30, 2017, the Company sold the land and equipment in Decatur, Illinois at its carrying amount and the land and building in Winnipeg, Manitoba for a gain of \$955, and the assets were removed from assets held for sale.

11. Long-term debt

	Interest rate %	Maturity	September 30, 2017 \$	December 31, 2016 \$
Non-current portion of long-term debt				
Series B secured notes	4.4	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	31,200	33,568
Term A secured loan	3.2	2021	50,000	50,000
Term B secured loan	3.4	2022	40,000	40,000
Revolver line	3.0	2021	47,424	51,023
U.S. revolver line	4.5	2021	109,824	9,399
			303,448	208,990
Less deferred financing costs			2,147	2,141
Total non-current long-term debt			301,301	206,849
Long-term debt			301,301	206,849

[a] Bank indebtedness

AGI has operating facilities of \$20.0 million and U.S. \$7.0 million. The facilities bear interest at prime plus 0.2% to prime plus 1.8% per annum based on performance calculations. As at September 30, 2017, there was nil [December 31, 2016 – nil] outstanding under these facilities.

[b] Long-term debt

AGI has revolver facilities of \$168 million from which Canadian or U.S. funds can be drawn and a \$75 million accordion feature, which is undrawn. The facilities bear interest at LIBOR plus 1.5% to LIBOR plus 3.0% and prime plus 0.2% to prime plus 1.8% per annum based on performance calculations. As at September 30, 2017, there was \$157 million [December 31, 2016 – \$60 million] outstanding under these facilities. In April 2017, the Company amended its credit facilities to extend the maturity to 2021.

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]

September 30, 2017

[c] Covenants

AGI is subject to certain financial covenants in its credit facility agreements that must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require AGI to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 3.25 and to provide debt service coverage of a minimum of 1.0. The covenant calculations exclude the convertible unsecured subordinated debentures from the definition of debt. As at September 30, 2017 and December 31, 2016, AGI was in compliance with all financial covenants. In April 2017, the credit facilities were amended to, among other things, require AGI to maintain a debt to EBITDA ratio of less than 3.75, until January 1, 2018, when it returns to 3.25.

12. Convertible unsecured subordinated debentures

	September 30, 2017	December 31, 2016
	\$	\$
Principal amount	299,155	213,000
Equity component	(14,212)	(9,922)
Accretion	5,810	4,039
Financing fees, net of amortization	(7,892)	(5,907)
Convertible unsecured subordinated debentures	282,861	201,210

On April 4, 2017, the Company entered into an agreement with a syndicate of underwriters pursuant to which AGI issued, on a "bought deal" basis, \$75 million aggregate principal amount of convertible unsecured subordinated debentures [the "2017 Debentures"] at a price of \$1,000 per 2017 Debenture. AGI also granted the underwriters an over-allotment option, exercisable in whole or in part for a period expiring 30 days following closing, to purchase up to an additional \$11.25 million aggregate amount of 2017 Debentures at the same price. The over-allotment option was fully exercised, and accordingly, the total gross proceeds to AGI were \$86.25 million. On April 25, 2017, the Company closed the offering of \$75 million aggregate principal amount of convertible unsecured subordinated debentures. On April 28, 2017, the Company closed the over-allotment option.

The 2017 Debentures bear interest at 4.85% per annum, payable semi-annually in arrears on June 30 and December 31 each year, commencing June 30, 2017. The 2017 Debentures have a maturity date of June 30, 2022.

The 2017 Debentures are convertible at the holder's option at any time prior to the close of business on the earlier of the business day immediately preceding the maturity date and the date specified by AGI for redemption of the 2017 Debentures into fully paid and non-assessable common shares of the Company at a conversion price of \$83.45 per common share, being a conversion rate of approximately 11.9832 common shares for each \$1,000 principal amount of 2017 Debentures.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the 2017 Debentures, the Company recorded a liability of \$86,250 less related offering costs of \$3,673 and the estimated fair value of the holder's conversion option. The liability

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]

September 30, 2017

component has been accreted using the effective interest rate method, and during the nine-month period ended September 30, 2017, the Company recorded accretion of \$313 [2016 – nil], non-cash interest expense relating to finance costs of \$267 [2016 – nil] and interest expense on the 4.85% coupon of \$1,993 [2016 – nil]. The estimated fair value of the holder's option to convert the 2017 Debentures to common shares in the total amount of \$4,290 has been separated from the fair value of the liability and is included in shareholders' equity, net of income tax of \$1,106 and its pro rata share of financing costs of \$190.

In 2013, the Company issued convertible unsecured subordinated debentures [the "2013 Debentures"] in the aggregate principal amount of \$75 million and an additional \$11.2 million of debentures upon exercise in full of the over-allotment option granted to underwriters for total gross proceeds to AGI of \$86.2 million. The maturity date of the 2013 Debentures is December 31, 2018. In the three-month period ended September 30, 2017, a holder of the 2013 Debentures exercised the conversion option for \$95 and were issued 1,727 common shares.

13. Shareholders' equity

[a] Common shares

	Shares #	Amount \$
Balance, January 1, 2016	14,590,368	244,840
Dividend reinvestment shares issued from treasury	144,006	5,218
Settlement of 2012 EIAP obligation	47,269	1,640
Balance, December 31, 2016	14,781,643	251,698
Dividend reinvestment shares issued from treasury	65,839	3,509
Settlement of 2012 EIAP obligation	133,570	5,300
Issuance of common shares	1,150,000	60,436
Convertible unsecured subordinated debentures [note 12]	1,727	95
Dividend reinvestment plan costs	—	(27)
Balance, September 30, 2017	16,132,779	321,011

On January 26, 2017, the Company entered into an agreement with a syndicate of underwriters pursuant to which AGI issued, on a "bought deal" basis, 1,100,000 common shares at a price of \$55.10 per share to raise gross proceeds of approximately \$60 million. Also, the Company granted the underwriters an over-allotment option, exercisable in whole or in part for a period expiring 30 days following closing, to purchase an additional 165,000 common shares at the same offering price. On February 15, 2017, the Company closed the public offering for 1,150,000 common shares at a price of \$55.10 per share, which includes 50,000 common shares issued pursuant to the over-allotment option, for gross proceeds of approximately \$63 million. Net proceeds after fees were approximately \$60 million.

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]

September 30, 2017

[b] Contributed surplus

	Nine-month period ended September 30, 2017 \$	Year ended December 31, 2016 \$
Balance, beginning of period	16,940	10,193
Equity-settled director compensation <i>[note 14[b]]</i>	264	375
Dividends on 2012 EIAP	1,038	1,672
Obligation under 2012 EIAP <i>[note 14[a]]</i>	6,170	6,517
Settlement of 2012 EIAP obligation	(5,344)	(1,823)
2015 convertible unsecured subordinated debentures	—	6
Balance, end of period	19,068	16,940

[c] Dividends paid and proposed

In the three-month period ended September 30, 2017, the Company declared dividends of \$9,671 or \$0.60 per common share [2016 – \$8,846 or \$0.60 per common share] and dividends on share compensation awards of \$253 [2016 – \$248]. In the nine-month period ended September 30, 2017, the Company declared dividends of \$28,675 or \$1.80 per common share [2016 – \$26,432 or \$1.80 per common share] and dividends on share compensation awards of \$1,038 [2016 – \$1,399]. For the three- and nine-month periods ended September 30, 2017, 21,397 and 65,839 common shares were issued to shareholders from treasury under the dividend reinvestment plan [the “DRIP”]. In the three-month period ended September 30, 2017, dividends paid to shareholders were financed \$8,504 [2016 – \$7,614] from cash on hand and \$1,167 [2016 – \$1,227] by the DRIP. In the nine-month period ended September 30, 2017, dividends paid to shareholders were financed \$25,166 [2016 – \$22,456] from cash on hand and \$3,509 [2016 – \$3,976] by the DRIP.

AGI’s dividend policy is to pay cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Company’s current monthly dividend rate is \$0.20 per common share. Subsequent to September 30, 2017, the Company declared dividends of \$0.20 per common share on October 31, 2017.

14. Share-based compensation plans

[a] Equity incentive award plan [“EIAP”]

During the three-month period ended September 30, 2017, no Restricted Awards or Performance Awards were granted [2016 – nil]. As at September 30, 2017, a total of 329,921 [December 31, 2016 – 321,000] Restricted Awards and 406,771 [December 31, 2016 – 357,500] Performance Awards had been granted under the plan.

During the three- and nine-month periods ended September 30, 2017, AGI expensed \$1,459 and \$6,170 for the 2012 EIAP [2016 – \$1,661 and \$4,781].

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]

September 30, 2017

A summary of the status of the options under the 2012 EIAP is presented below:

	2012 EIAP	
	Restricted Awards	Performance Awards
	#	#
Outstanding, January 1, 2016	194,334	—
Granted	58,000	247,500
Vested	(34,974)	—
Forfeited	(4,359)	—
Balance, December 31, 2016	213,001	247,500
Granted	8,921	39,640
Vested	(70,302)	(73,983)
Forfeited	(3,530)	—
Balance, September 30, 2017	148,090	213,157

There is no exercise price on the 2012 EIAP awards.

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

For the three- and nine-month periods ended September 30, 2017, an expense of \$93 and \$264 [2016 – \$94 and \$294] 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- and nine-month periods ended September 30, 2017, 1,737 and 5,155 [2016 – 2,199 and 7,536] common shares were granted under the DDCP, and as at September 30, 2017, a total of 68,527 [2016 – 62,108] common shares had been granted under the DDCP and 18,436 [2016 – 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]

September 30, 2017

15. Other expenses (income)

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
[a] Other operating expense (income)				
Net gain on disposal of property, plant and equipment	(23)	(131)	(11)	(143)
Net gain on disposal of assets held for sale	(955)	—	(955)	(16)
Other	831	(2,262)	(2,704)	(6,466)
	(147)	(2,393)	(3,670)	(6,625)
[b] Finance expense (income)				
Interest expense (income) from banks	(47)	1	(71)	(38)
Loss (gain) on foreign exchange	(7,505)	269	(13,450)	(1,809)
	(7,552)	270	(13,521)	(1,847)
[c] Finance costs				
Interest on overdrafts and other finance costs	89	31	312	91
Interest, including non-cash interest, on debts and borrowings	4,098	2,354	10,626	6,898
Interest, including non-cash interest, on convertible unsecured subordinated debentures <i>[note 12]</i>	5,097	3,673	13,798	10,955
	9,284	6,058	24,736	17,944
[d] Cost of goods sold				
Depreciation	4,075	2,733	10,828	7,755
Amortization of intangible assets	404	1,192	3,850	3,406
Warranty provision (recovery)	(960)	54	(661)	(8)
Cost of inventory recognized as an expense	144,999	105,395	397,476	272,410
	148,518	109,374	411,493	283,563
[e] Selling, general and administrative expenses				
Depreciation	340	212	991	720
Amortization of intangible assets	2,775	1,393	6,637	5,058
Minimum lease payments recognized as an operating lease expense	705	632	2,133	1,793
Transaction costs	1,620	1,374	7,832	2,773
Selling, general and administrative	30,171	22,880	95,467	70,330
	35,611	26,491	113,060	80,674
[f] Employee benefits expense				
Wages and salaries	34,237	33,033	106,890	98,158
Share-based payment transaction expense <i>[notes 14[a] and [b]]</i>	1,552	1,755	6,434	5,075
Pension costs	1,063	793	3,198	2,409
	36,852	35,581	116,522	105,642
Included in cost of goods sold	24,071	22,985	74,044	66,728
Included in selling general and administrative expense	12,781	12,596	42,478	38,914
	36,852	35,581	116,522	105,642

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]

September 30, 2017

16. Retirement benefit plans

During the three- and nine-month period ended September 30, 2017, the expense associated with the Company's defined pension benefit was \$29 and \$248, respectively [2016 – \$157 and \$470]. As at September 30, 2017, the accrued pension benefit was \$81 [December 31, 2016 – \$382], which is included in other assets on the unaudited interim condensed consolidated statements of financial position.

17. Income taxes

The major components of income tax expense for the three- and nine-month periods ended September 30, 2017 and 2016 are as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Profit from continuing operations before income taxes	20,255	18,617	49,472	33,472
Tax expense at the statutory rate of 27% [2016 – 27%]	5,469	5,027	13,357	9,037
Tax rate changes	47	(741)	(20)	(775)
Additional deductions allowed in a foreign jurisdiction	(99)	(263)	(372)	(563)
Tax losses not recognized as a deferred tax asset	655	75	2,427	917
Foreign rate differential	196	868	465	1,385
Non-deductible EIAP expense	109	121	364	402
State income taxes, net of federal tax benefit	78	218	286	510
Unrealized foreign exchange loss (gain)	(1,912)	159	(3,414)	(1,064)
Permanent differences and others	123	201	940	169
Tax expense at the effective rate of 28.37% [2016 – 29.93%]	4,666	5,665	14,033	10,018

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]

September 30, 2017

18. Profit per share

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

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
	\$	\$	\$	\$
Profit from continuing operations	15,589	12,952	35,439	23,454
Profit (loss) from discontinued operations	(1)	82	25	562
Dilutive effect of 2017 convertible debenture interest	—	—	1,950	—
Dilutive effect of 2015 convertible debenture interest	904	893	2,702	—
Dilutive effect of 2013 convertible debenture interest	1,157	1,132	3,426	—
Dilutive effect of 2014 convertible debenture interest	665	656	—	—
Profit attributable to shareholders for basic and diluted profit per share	18,314	15,715	43,542	24,016
Basic weighted average number of shares	16,111,048	14,735,339	15,860,506	14,688,655
Dilutive effect of DDCP	48,373	41,497	46,868	38,902
Dilutive effect of RSU	158,071	200,055	169,284	211,069
Dilutive effect of 2017 convertible debentures	—	—	1,033,551	—
Dilutive effect of 2015 convertible debentures	1,250,000	1,250,000	1,250,000	—
Dilutive effect of 2013 convertible debentures	1,568,180	1,568,180	1,568,180	—
Dilutive effect of 2014 convertible debentures	789,234	789,234	—	—
Diluted weighted average number of shares	19,924,906	18,584,305	19,928,389	14,938,626
Profit per share from continuing operations				
Basic	0.97	0.87	2.24	1.60
Diluted	0.92	0.84	2.18	1.57
Profit per share from discontinued operations				
Basic	0.00	0.01	0.00	0.04
Diluted	0.00	0.01	0.00	0.04
Profit per share				
Basic	0.97	0.88	2.24	1.64
Diluted	0.92	0.85	2.18	1.61

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]

September 30, 2017

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these unaudited interim condensed consolidated financial statements.

The 2017 Debentures were excluded in the calculation of diluted profit per share from the three-month ended September 30, 2017 because their effect is anti-dilutive.

The 2014 Debentures were excluded in the calculation of diluted profit per share in the nine-month ended September 30, 2017 because their effect is anti-dilutive.

19. 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		Nine-month period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Accounts receivable	11,068	6,295	(17,124)	(13,524)
Inventory	2,751	6,578	(3,335)	7,459
Prepaid expenses and other assets	2,278	(135)	(1,466)	(1,067)
Accounts payable and accrued liabilities	(7,714)	925	17,951	9,249
Customer deposits	3,488	(4,074)	5,345	(7,661)
Provisions	(960)	(46)	(661)	(433)
	10,911	9,543	710	(5,977)

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]

September 30, 2017

[b] Reconciliation of liabilities arising from financing activities

	December 31, 2016	Cash flows	Non-cash changes				September 30, 2017	
			Conversion	Foreign exchange	Accretion	Amortization		Fair value
	\$	\$	\$	\$	\$	\$	\$	
Long-term debt Convertible unsecured subordinated debentures	206,849	107,454	—	(13,449)	—	447	—	301,301
Finance leases	201,210	82,387	(95)	—	1,771	1,688	(4,100)	282,861
Derivatives held to hedge long-term borrowings	1,732	(205)	—	—	—	—	—	1,527
	715	—	—	—	—	—	(1,874)	(1,159)
Total liabilities from financing activities	410,506	189,636	(95)	(13,449)	1,771	2,135	(5,974)	584,530

	December 31, 2015	Cash flows	Non-cash changes				September 30, 2016	
			Acquisitions	Foreign exchange	Accretion	Amortization		Fair value
	\$	\$	\$	\$	\$	\$	\$	
Long-term debt Convertible unsecured subordinated debentures	146,931	14,990	—	(1,807)	—	543	—	160,657
Finance leases	197,585	—	(16)	—	1,374	1,335	—	200,278
Derivatives held to hedge long-term borrowings	1,386	(246)	101	—	—	—	—	1,241
	2,001	—	—	—	—	—	616	2,617
Total liabilities from financing activities	347,903	14,744	85	(1,807)	1,374	1,878	616	364,793

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]

September 30, 2017

20. 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. As at September 30, 2017, AGI's U.S. dollar denominated debt totaled \$141 million [December 31, 2016 – \$43.0 million]. The Company had no outstanding foreign exchange forward contracts at September 30, 2017.

Realized gains or losses are included in net earnings, and for the three- and nine-month periods ended September 30, 2017, the Company realized a loss on its foreign exchange contracts of nil and \$710, [2016 – \$4,317 and \$10,568].

To mitigate exposure to fluctuating rate of exchange, during the nine-month period ended September 30, 2017 the Company entered into an agreement with financial institutions to purchase put options at a premium price of \$48. Each put option gives the Company the right, but not the obligation, to sell \$1.0 million U.S. dollars at a rate of \$1.25. The options have maturity dates ranging between May 2017 and December 2017. The put options are derivative financial instruments designated as cash flow hedges, and changes in the fair value are recognized as a component of other comprehensive income to the extent that it has been assessed to be effective. As at September 30, 2017, there are \$11.3 million options outstanding. During the nine-month period ended September 30, 2017, realized losses of \$16 and unrealized gains of \$57 were recognized in profit and loss and other comprehensive income, respectively.

[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 designated as cash flow hedges, and changes in the fair value were recognized as a component of other comprehensive income to the extent that it has been assessed to be effective. The amount of gain recorded in other comprehensive income during the three- and nine-month periods ended September 30, 2017 was \$1,060 and \$1,874 [2016 – \$207 and \$(2,617)].

[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 September 30, 2017, the equity swap agreement covered 500,000 common shares of the Company at a price of \$34.10, and the agreement matures on March 22, 2019.

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]

September 30, 2017

As at September 30, 2017, the unrealized gain on the equity swap was \$9,653, and in the three- and nine-month periods ended September 30, 2017, the Company has recorded a loss (gain) in the unaudited interim condensed consolidated statements of income of \$2,235 and \$(366) [2016 – 1,735 and \$5,160].

[d] Fair value

The fair value of cash and cash equivalents, cash held in trust, accounts receivable due from vendor, accounts payables and provisions, dividends payable, acquisition, transaction and financing costs payable, and due to vendor approximates the carrying value due to the short-term maturities of these instruments.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's other financial instruments that are carried in the unaudited interim condensed consolidated financial statements:

	Level	September 30, 2017		December 31, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
Financial assets					
Derivative instruments	2	10,935	10,935	9,289	9,289
Available-for-sale investment	3	900	900	900	900
Note receivable	2	764	764	807	807
Financial liabilities					
Other financial liabilities					
Interest-bearing loans and borrowings	2	302,828	303,428	208,581	208,916
Contingent consideration	3	6,620	6,620	20,224	20,224
Derivative instruments	2	—	—	1,577	1,577
Convertible unsecured subordinated debentures	2	282,861	311,694	201,210	198,150

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:

- 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 valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

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]

September 30, 2017

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

21. 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. The total cost of these legal services related to general matters was \$261 during the nine-month period ended September 30, 2017 [2016 – \$135], and \$50 is included in accounts payable and accrued liabilities as at September 30, 2017.

Salthammer Inc. provides consulting services to the Company and a Director of AGI is the owner of Salthammer Inc. The total cost of these consulting services related to an international plant expansion project was \$132 during the nine-month period ended September 30, 2017 [2016 – nil], and \$13 is included in accounts payable and accrued liabilities as at September 30, 2017.

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

22. 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 \$5,665 [2016 – \$42,556].

[b] Letters of credit

As at September 30, 2017, the Company has outstanding letters of credit in the amount of \$1,156 [December 31, 2016 – \$2,414].

[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.