

Consolidated financial statements

Ag Growth International Inc.

December 31, 2018

Independent auditor's report

To the Shareholders of
Ag Growth International Inc.

Opinion

We have audited the consolidated financial statements of **Ag Growth International Inc.** and its subsidiaries [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

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

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

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

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



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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

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

Winnipeg, Canada
March 13, 2019

Ernst + Young LLP

Chartered Professional Accountants



Ag Growth International Inc.

Consolidated statements of financial position

[in thousands of Canadian dollars]

As at December 31

	2018	2017
	\$	\$
Assets <i>[note 20]</i>		
Current assets		
Cash and cash equivalents <i>[note 28]</i>	33,610	63,981
Cash held in trust and restricted cash <i>[notes 6 and 7]</i>	2,955	15,182
Accounts receivable <i>[note 8]</i>	134,239	99,017
Inventory <i>[note 9]</i>	190,887	158,635
Prepaid expenses and other assets	26,031	17,616
Current portion of note receivable	85	89
Current portion of derivative instruments	185	—
Income taxes recoverable	4,344	885
	392,336	355,405
Non-current assets		
Property, plant and equipment, net <i>[note 10]</i>	332,645	304,543
Goodwill <i>[note 11]</i>	256,619	234,669
Intangible assets, net <i>[note 12]</i>	233,199	218,156
Available-for-sale investment <i>[notes 3 and 14]</i>	—	900
Equity investment <i>[note 3 and 14]</i>	900	—
Non-current accounts receivable <i>[note 8]</i>	8,122	4,180
Note receivable	650	700
Income taxes recoverable	—	4,230
Derivative instruments <i>[note 29]</i>	7,464	11,466
Deferred tax asset <i>[note 26]</i>	455	183
	840,054	779,027
Assets held for sale <i>[note 15]</i>	1,169	2,842
Total assets	1,233,559	1,137,274
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 16]</i>	101,504	96,071
Customer deposits	47,941	40,662
Dividends payable	3,673	3,232
Current portion of contingent consideration <i>[note 6]</i>	4,552	5,306
Current portion of due to vendor <i>[notes 6 and 17]</i>	7,973	33,309
Income taxes payable	4,286	4,945
Current portion of long-term debt <i>[note 20]</i>	289	117
Current portion of obligations under finance lease <i>[note 19]</i>	65	983
Current portion of convertible unsecured subordinated debentures <i>[note 21]</i>	51,750	86,155
Provisions <i>[note 18]</i>	7,685	5,909
	229,718	276,689
Non-current liabilities		
Long-term debt <i>[note 20]</i>	271,132	302,859
Due to vendor <i>[note 6]</i>	1,376	725
Contingent consideration <i>[note 6]</i>	1,834	3,731
Other liabilities <i>[note 25]</i>	85	3,378
Convertible unsecured subordinated debentures <i>[note 21]</i>	233,098	199,903
Obligations under finance lease <i>[note 19]</i>	165	19
Deferred tax liability <i>[note 26]</i>	61,952	57,758
	569,642	568,373
Total liabilities	799,360	845,062
Shareholders' equity <i>[note 22]</i>		
Common shares	450,645	323,199
Accumulated other comprehensive income	57,324	29,638
Equity component of convertible debentures	8,203	9,903
Contributed surplus	26,045	20,956
Deficit	(108,018)	(91,484)
Total shareholders' equity	434,199	292,212
Total liabilities and shareholders' equity	1,233,559	1,137,274

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert
Director

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

Ag Growth International Inc.

Consolidated statements of income

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

Years ended December 31

	2018	2017
	\$	\$
Sales	931,664	754,715
Cost of goods sold <i>[note 24[d]]</i>	663,505	536,001
Gross profit	268,159	218,714
Expenses (income)		
Selling, general and administrative <i>[note 24[e]]</i>	175,914	151,106
Other operating income <i>[note 24[a]]</i>	(21)	(4,645)
Impairment charge <i>[notes 13 and 15]</i>	232	1,932
Finance costs <i>[note 24[c]]</i>	37,067	35,708
Finance (income) cost <i>[note 24[b]]</i>	16,403	(12,587)
	229,595	171,514
Profit from continuing operations before income taxes	38,564	47,200
Income tax expense <i>[note 26]</i>		
Current	10,517	6,712
Deferred	1,429	5,333
	11,946	12,045
Profit from continuing operations	26,618	35,155
Profit from discontinued operations, net of tax	—	41
Profit for the year	26,618	35,196
Profit per share from continuing operations <i>[note 27]</i>		
Basic	1.58	2.20
Diluted	1.56	2.17
Profit per share from discontinued operations <i>[note 27]</i>		
Basic	0.00	0.01
Diluted	0.00	0.01
Profit per share <i>[note 27]</i>		
Basic	1.58	2.21
Diluted	1.56	2.18

See accompanying notes

Ag Growth International Inc.

Consolidated statements of comprehensive income

[in thousands of Canadian dollars]

Years ended December 31

	2018	2017
	\$	\$
Profit for the year	26,618	35,196
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	1,025	2,435
(Gains) losses on derivatives designated as cash flow hedges recognized in net earnings in the year	(2,785)	910
Exchange differences on translation of foreign operations	28,799	(27,953)
Income tax effect on cash flow hedges	477	(902)
Other comprehensive loss from discontinued operations	—	(198)
	27,516	(25,708)
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plan	233	(933)
Income tax effect on defined benefit plan	(63)	252
	170	(681)
Other comprehensive income (loss) for the year	27,686	(26,389)
Total comprehensive income for the year	54,304	8,807

See accompanying notes

Ag Growth International Inc.

Consolidated statements of changes in shareholders' equity

[in thousands of Canadian dollars]

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Cash flow hedge reserve \$	Foreign currency reserve \$	Defined benefit plan reserve \$	Total shareholders' equity \$
As at January 1, 2018	323,199	9,903	20,956	(92,842) ¹	1,283	28,618	(263)	290,854
Profit for the year	—	—	—	26,618	—	—	—	26,618
Other comprehensive income (loss)	—	—	—	—	(1,283)	28,799	170	27,686
Share-based payment transactions <i>[notes 22[a]] and 22[b]]</i>	5,820	—	1,956	—	—	—	—	7,776
Dividend reinvestment plan <i>[note 22[d]]</i>	1,384	—	—	—	—	—	—	1,384
Dividends to shareholders <i>[note 22[d]]</i>	—	—	—	(40,650)	—	—	—	(40,650)
Dividends on share-based compensation awards <i>[note 22[d]]</i>	—	—	—	(1,144)	—	—	—	(1,144)
Common share issuance <i>[note 22[a]]</i>	111,564	—	—	—	—	—	—	111,564
Issuance of convertible unsecured subordinated debentures <i>[note 21]</i>	—	1,433	—	—	—	—	—	1,433
Conversion of convertible unsecured subordinated debentures <i>[note 21]</i>	8,678	—	—	—	—	—	—	8,678
Redemption of convertible unsecured subordinated debentures <i>[note 21]</i>	—	(3,133)	3,133	—	—	—	—	—
As at December 31, 2018	450,645	8,203	26,045	(108,018)	—	57,417	(93)	434,199

See accompanying notes

¹ Adjusted to reflect adoption of IFRS 15 and 9 *[note 3]*.

Ag Growth International Inc.

Consolidated statements of changes in shareholders' equity

[in thousands of Canadian dollars]

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Cash flow hedge reserve \$	Foreign currency reserve \$	Defined benefit plan reserve \$	Total shareholders' equity \$
As at January 1, 2017	251,698	6,912	16,940	(87,013)	(1,160)	56,769	418	244,564
Profit for the year	—	—	—	35,196	—	—	—	35,196
Other comprehensive income (loss)	—	—	—	—	2,443	(28,151)	(681)	(26,389)
Share-based payment transactions <i>[notes 22[a]] and 22[b]]</i>	5,300	—	4,016	—	—	—	—	9,316
Dividend reinvestment plan <i>[note 22[d]]</i>	4,909	—	—	—	—	—	—	4,909
Dividends to shareholders <i>[note 22[d]]</i>	—	—	—	(38,365)	—	—	—	(38,365)
Dividends on share-based compensation awards <i>[note 22[d]]</i>	—	—	—	(1,302)	—	—	—	(1,302)
Dividend reinvestment plan costs <i>[note 22[e]]</i>	(27)	—	—	—	—	—	—	(27)
Common share issuance <i>[note 22[a]]</i>	61,224	—	—	—	—	—	—	61,224
Issuance of convertible unsecured subordinated debentures <i>[note 21]</i>	—	2,991	—	—	—	—	—	2,991
Conversion of convertible unsecured subordinated debentures <i>[note 21]</i>	95	—	—	—	—	—	—	95
As at December 31, 2017	323,199	9,903	20,956	(91,484)	1,283	28,618	(263)	292,212

See accompanying notes

Ag Growth International Inc.

Consolidated statements of cash flows

[in thousands of Canadian dollars]

Years ended December 31

	2018 \$	2017 \$
Operating activities		
Profit from continuing operations before income taxes for the year	38,564	47,200
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	19,200	16,471
Amortization of intangible assets	13,831	13,003
Loss on sale of property, plant and equipment	193	46
Gain on disposal of asset held for sale <i>[note 15]</i>	(8)	(955)
Impairment charge <i>[note 15]</i>	232	1,932
Non-cash component of interest expense	6,206	7,238
Non-cash movement in derivative instruments	2,061	(357)
Share-based compensation expense	8,004	8,057
Employer contribution to defined benefit plan	—	(647)
Defined benefit plan expense	135	277
Contingent consideration	1,159	861
Equipment provided to vendor	(115)	(2,150)
Non-cash transaction costs	3,125	2,731
Translation (gain) loss on foreign exchange	27,771	(21,088)
	120,358	72,619
Net change in non-cash working capital balances related to continuing operations <i>[note 28]</i>	(63,017)	(9,466)
Non-current accounts receivable	(3,942)	(4,180)
Long-term payables	(280)	—
Settlement of EIAP obligation	(1,953)	—
Put option costs	—	(48)
Income taxes paid	(9,975)	(8,467)
Cash provided by operating activities from continuing operations	41,191	50,458
Investing activities		
Acquisition of property, plant and equipment	(36,549)	(51,299)
Acquisitions, net of cash acquired <i>[note 6]</i>	(50,266)	(136,470)
Transfer to cash held in trust and restricted cash	(784)	(10,804)
Proceeds from sale of property, plant and equipment	952	658
Proceeds from disposal of assets held for sale <i>[note 15]</i>	2,427	4,069
Development and purchase of intangible assets	(7,397)	(4,910)
Transaction costs paid and payable	2,982	(14,763)
Cash used in investing activities from continuing operations	(88,635)	(213,519)
Financing activities		
Issuance of long-term debt, net of issuance costs <i>[note 20[b]]</i>	165,098	107,545
Repayment of long-term debt	(215,851)	(32)
Repayment of obligation under finance lease	(1,064)	(231)
Change in obligation under finance lease	192	—
Change in interest accrued	(7,522)	7,578
Issuance of convertible unsecured subordinated debentures	82,293	82,387
Redemption of convertible unsecured subordinated debentures <i>[note 21]</i>	(77,477)	—
Common share issuance, net of issuance costs	110,670	60,436
Dividends paid in cash <i>[note 22[d]]</i>	(39,266)	(33,456)
Cash provided by financing activities from continuing operations	17,073	224,227
Net increase (decrease) in cash and cash equivalents from continuing operations	(30,371)	61,166
Net increase (decrease) in cash and cash equivalents from discontinued operations	—	41
Net increase (decrease) in cash and cash equivalents during the year	(30,371)	61,207
Cash and cash equivalents, beginning of year	63,981	2,774
Cash and cash equivalents, end of year	33,610	63,981
Supplemental cash flow information		
Interest paid	36,393	18,877

See accompanying notes

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

1. Organization

The consolidated financial statements of Ag Growth International Inc. ["AGI" or the "Company"] for the year ended December 31, 2018 were authorized for issuance in accordance with a resolution of the directors on March 13, 2019. AGI is a listed company incorporated and domiciled in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

2. Operations

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

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

3. Summary of significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

Principles of consolidation

The consolidated financial statements include the accounts of Ag Growth International Inc. and its wholly owned subsidiaries, Ag Growth Industries Partnership, AGX Holdings Inc., Ag Growth Holdings Corp., AGI Alpha Holdings Corp., AGI Bravo Holdings Corp., Westfield Distributing (North Dakota) Inc., Hansen Manufacturing Corp. ["Hi Roller"], Union Iron Inc. ["Union Iron"], Airlanco Inc. ["Airlanco"], Westeel USA LLC, Tramco, Inc. ["Tramco"], Tramco Europe Limited, Euro-Tramco B.V., Ag Growth Suomi Oy, Ag Growth Scandinavia, AGI Comercio de Equipamentos E Montagens Ltda, AGI Latvia Inc., Westeel Canada Inc. ["Westeel"], G.J. Vis Holdings Inc. ["Vis"], G.J. Vis Properties Inc., G.J. Vis Enterprises Inc., Westeel EMEA S.L., Frame S.R.L., PTM S.R.L. Entringer Industrial S.A., NuVision Industries Inc., Mitchell Mill Systems Canada Ltd., Mitchell Mill Systems USA Inc., Yargus

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Manufacturing, Inc., Yargus International Inc., Global Industries, Inc., CMC Industrial Electronics Ltd., Junge Control Inc., Danmare Group Inc. and its affiliate Danmare, Inc. [collectively, "Danmare"], and Cobalt Investissement and its wholly owned subsidiaries Sabe, Sabe Distribution, Agro Maintenance Système (AMS), Sabis and Société D'Études Techniques D'Installation (Setir) [collectively, "Sabe"] as at December 31, 2018. Subsidiaries are fully consolidated from the date of acquisition, it being the date on which AGI obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Business combinations and goodwill

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

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

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

Foreign currency translation

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

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

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

Cash and cash equivalents

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

Inventory

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of any accumulated depreciation and any impairment losses determined. Cost includes the purchase price, any costs directly attributable to bringing the asset to the location

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

and condition necessary and, where relevant, the present value of all dismantling and removal costs. Where major components of property, plant and equipment have different useful lives, the components are recognized and depreciated separately. AGI recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, and if it is probable that the future economic benefits embodied with the item can be reliably measured. All other repair and maintenance costs are recognized in the consolidated statements of income as an expense when incurred.

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

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

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

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

Leases

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

Borrowing costs

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

Intangible assets

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

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

Impairment of non-financial assets

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

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

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

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

For assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, AGI estimates the asset's or CGU group's recoverable amount. A previously recognized impairment loss is

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset or CGU group in prior years. Such a reversal is recognized in the consolidated statements of income.

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

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

Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9 and the following are the policies for financial instruments.

Financial assets

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

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

Amortized cost

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Fair value through other comprehensive income (debt securities)

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

Fair value through other comprehensive income (equity investments)

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

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

Financial assets at fair value through profit or loss

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

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

Impairment

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

Under the general approach, ECLs are recognized in two stages: [i] For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

from default events that are possible within the next 12-months. [ii] For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default [a lifetime ECL].

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

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

Financial liabilities

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

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

Derecognition

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Prior to January 1, 2018, the Company's policies under IAS 39 were as follows:

AGI classifies its financial assets as [i] financial assets at fair value through profit or loss ["FVTPL"], [ii] loans and receivables or [iii] available-for-sale, and its financial liabilities as either [i] financial liabilities at FVTPL or [ii] other financial liabilities. Certain derivatives are designated as hedging instruments in an effective hedge, as appropriate. Appropriate classification of financial assets and liabilities is determined at the time of initial recognition or when reclassified in the consolidated statements of financial position.

All financial instruments are recognized initially at fair value plus, in the case of investments and liabilities not at FVTPL, directly attributable transaction costs. Financial instruments are recognized on the trade date, which is the date on which AGI commits to purchase or sell the asset.

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets classified as held-for-trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes cash and cash equivalents and derivative financial instruments entered into that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value, with changes in the fair value recognized in finance income or finance costs in the consolidated statements of income.

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statements of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include receivables. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment. The effective interest amortization is included in finance income in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at FVTPL. Debt securities

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statements of income and removed from the available-for-sale reserve.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statements of income.

Impairment of financial assets

AGI assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset [an incurred "loss event"] and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, AGI first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If AGI determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

impairment loss. The interest income is recorded as part of finance income in the consolidated statements of income.

Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

For available-for-sale financial investments, AGI assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income – is removed from other comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at FVTPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held-for-trading are recognized in the consolidated statements of income.

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

Other financial liabilities

Financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities include long-term debt issued, which is initially measured at fair value, which is the consideration received, net of transaction costs incurred, net of equity component. Transaction costs related to the long-term debt instruments

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

are included in the value of the instruments and amortized using the effective interest rate method. The effective interest expense is included in finance costs in the consolidated statements of income.

Derecognition

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

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

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

Derivative instruments and hedge accounting

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

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

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

At the inception of a hedge relationship, AGI formally designates and documents the hedge relationship to which AGI wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Before January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

Cash flow hedges

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques that are recognized by market participants. Such techniques may include using recent arm's length

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Provisions

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

Warranty provisions

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

Profit per share

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

Revenue recognition

Effective January 1, 2018, the Company adopted IFRS 15 and the following are the policies for revenue recognition.

Sale of goods

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

assurance-type warranty costs and sales incentives, are charged to cost of sales or as a deduction from revenue at the time revenue is recognized. The Company does not provide service-type warranties.

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

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

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

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

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

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

Prior to January 1, 2018, the Company's revenue recognition policies under IAS 18 were as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to AGI and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. AGI assesses its revenue arrangements against specific criteria in order to determine if it

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

is acting as principal or agent. With the exception of third-party services, AGI has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is in general recognized when significant risks and rewards of ownership are transferred to the customer. AGI generally recognizes revenue when products are shipped, free on board shipping point; the customer takes ownership and assumes risk of loss; collection of the related receivable is probable; persuasive evidence of an arrangement exists; and the sales price is fixed or determinable. Customer deposits are recorded as a current liability when cash is received from the customer and recognized as revenue at the time product is shipped, as noted above.

Income taxes

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

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

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

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

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

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

Sales tax

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

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

Share-based compensation plans

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Equity-settled transactions

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

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

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

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

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

Employee benefits

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

Current employee wages and benefits are expensed as incurred.

Post-retirement benefit plans

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

Research and development expenses

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

Government grants

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

Investment tax credits

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

Adoption of new accounting policies

IFRS 9, *Financial Instruments* ["IFRS 9"]

The Company adopted IFRS 9 with a date of application of January 1, 2018. The Company adopted IFRS 9 retrospectively without restatement of prior periods, other than the hedge accounting provisions of IFRS 9 that

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

have been applied prospectively effective January 1, 2018, and accordingly elected to not restate the comparative figures. IFRS 9 introduces new requirements for the classification and measurement of financial assets, introduces a forward-looking expected loss impairment model, and amends the requirements related to hedge accounting.

The standard contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ["FVOCI"] and fair value through profit or loss ["FVTPL"]. The classification of financial assets under IFRS 9 is based on their contractual cash flow characteristics and the business model in which the financial asset is managed. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption as at January 1, 2018 had no impact on the measurement of financial instruments, with the exception of long-term debt. In 2017, the Company amended its credit facilities to extend the maturity from May 2019 to April 2021, and as result of the change in maturity and adoption of IFRS 9, an adjustment to increase opening retained earnings by \$175 was recorded.

The classification changes are summarized in the following table:

	IAS 39	IFRS 9	IFRS 9 Carrying value as at January 1, 2018 \$
Financial assets			
Cash and cash equivalents	Loans and receivables	Amortized cost	63,981
Cash held in trust	Loans and receivables	Amortized cost	15,182
Accounts receivable	Loans and receivables	Amortized cost	99,017
Derivative instruments – equity swap	Fair value through profit or loss	Fair value through profit or loss	9,698
Derivative instruments – interest rate swap contracts ¹	Fair value through OCI	Fair value through OCI	1,768
Equity investment	Available-for-sale	Fair value through OCI	900
Note receivable	Loans and receivables	Amortized cost	789
Financial liabilities			
Interest-bearing loans and borrowings	Loans and receivables	Amortized cost	303,803
Accounts payable and accrued liabilities	Loans and receivables	Amortized cost	96,071
Dividends payable	Loans and receivables	Amortized cost	3,232
Due to vendor	Loans and receivables	Amortized cost	34,034
Convertible unsecured subordinated debentures	Loans and receivables	Amortized cost	286,058

¹Hedge accounting applied.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The Company adopted the expected loss impairment model under which the lifetime expected credit losses are recognized on initial recognition. The Company's impairment assessment considers historical and current conditions, and reasonable supportable forecasts. There was no additional impairment charge recorded as a result of the Company's adoption of the expected loss impairment model.

The Company adopted the new general hedge accounting model in IFRS 9. The adoption of IFRS 9 did not result in any changes in the eligibility of existing hedge relationships, the accounting for derivative financial instruments designed as effective hedging instruments or the line items in which they are included in the consolidated statements of financial position or consolidated statements of income.

IFRS 15, *Revenue from Contracts with Customers* ["IFRS 15"]

The Company adopted IFRS 15 with an application date of January 1, 2018. The Company applied the modified retrospective method for adopting IFRS 15 and, therefore, the comparative information has not been restated and continues to be reported under IAS 18, *Revenue* and IAS 11, *Construction Contracts*. Under the modified approach, the cumulative effect of initially applying IFRS 15 is an adjustment to decrease opening retained earnings by \$1,532. The adjustment results from the change in the basis of revenue recognition from the transfer of risk and rewards of ownership to the transfer of control. Consequently, revenue recognition was delayed until completion of the performance obligations. As at December 31, 2018, revenue adjusted upon adoption has all been recorded into income upon the Company's completion of its performance obligations in accordance with IFRS 15.

IFRS 2, *Share-based Payment* ["IFRS 2"]

In June 2016, the IASB issued amendments to IFRS 2 clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company's assessment did not identify significant classification, recognition or measurement differences. The Company adopted IFRS 2 as at January 1, 2018.

4. Significant accounting judgments, estimates and assumptions

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

Impairment of financial assets

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

Prior to January 1, 2019, in assessing whether objective evidence of impairment exists at each reporting period, the Company considered its past experience of collecting payments, historical loss experience, customer credit ratings and financial data as available, collateral on amounts owing including insurance coverage from export credit agencies, as well as observable changes in national or local economic conditions.

Effective January 1, 2019, in assessing whether objective evidence of impairment exists at each reporting date, the Company uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns [i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance]. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 29[b]. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and operate in largely independent markets.

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

Impairment of non-financial assets

AGI's impairment test is based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and do not include restructuring activities to which AGI has

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

not yet committed or significant future investments that will enhance the asset's performance of the CGU being tested. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate, as well as the forecasted margins and growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 13.

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

Development costs

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

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

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

Fair value of financial instruments

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

Share-based payments

AGI measures the cost of equity-settled share-based payment transactions with employees by reference to the fair value of equity instruments at the grant date, whereas the fair value of cash-settled share-based payments is remeasured at every reporting date. Estimating fair value for share-based payments requires determining the most

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

appropriate valuation model for a grant of these instruments, which is dependent on the terms and conditions of the grant.

Income taxes

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

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

Business combinations

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

5. Standards issued but not yet effective

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

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

In January 2016, the IASB released IFRS 16 to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard will be effective for the Company on January 1, 2019. Under the new standard, the Company will recognize new right-of-use assets and lease

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

liabilities for its operating leases. In addition, the nature and timing of leasing expenses will change as operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities.

On transition, the Company can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Company plans to apply the modified retrospective approach and certain practical expedients, where applicable. The Company is finalizing the incremental borrowing rate applicable to each lease in scope and continues to assess the potential impact of IFRS 16 on its consolidated statements of financial position, along with a change to the recognition, measurement and presentation of lease expense in the consolidated statements of income.

Lease expense on certain short-term leases and/or low value leases will be expensed on a straight-line basis and recorded to profit or loss.

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

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply to future business combinations of the Company.

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

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will be applied prospectively to any future plan amendments, curtailments, or settlements of the Company.

IFRIC 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

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

The Interpretation is effective for the Company's fiscal year beginning on January 1, 2019. The Company is currently assessing the impact, however does not expect a material adjustment upon adoption.

6. Business combinations

[a] 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 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.

	\$
Purchase price [\$100,000 US]	133,220
Cash acquired	1,935
Working capital adjustment	2,462
Tax gross up to vendor	5,291
Purchase consideration	<u>142,908</u>

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 consolidated financial statements at their fair values:

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

	\$
Cash and cash equivalents	1,935
Accounts receivable	15,118
Inventory	45,776
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	2,135
Deferred tax asset	1,973
Accounts payable and accrued liabilities	(20,362)
Customer deposits	(5,240)
Purchase consideration	<u>142,908</u>

During the measurement period, further payroll liabilities existing at acquisition were identified, resulting in a \$586 increase in accounts payable and accrued liabilities and an offsetting increase in goodwill in the year ended December 31, 2018.

The components of the purchase consideration are as follows:

	\$
Cash paid	135,641
Cash held in trust	6,661
Due to vendor	606
Purchase consideration	<u>142,908</u>

During the year ended December 31, 2018, the allocation of the purchase price to acquired assets and liabilities was finalized.

[b] CMC Industrial Electronics Ltd.

Effective December 22, 2017, the Company acquired 100% of the outstanding shares of CMC Industrial Electronics Ltd. ["CMC"]. Based in Canada and the U.S., CMC manufactures industry-leading hazard monitoring systems for industrial applications. The acquisition expands AGI's product catalogue and strengthens AGI's applied technology platform.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

	<u>\$</u>
Purchase price	6,500
Cash acquired	974
Working capital adjustment	<u>(354)</u>
Purchase consideration	<u>7,120</u>

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

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

	<u>\$</u>
Cash	974
Accounts receivable	947
Inventory	1,741
Prepaid expenses and other assets	201
Income taxes recoverable	127
Property, plant and equipment	142
Intangible assets	
Brand name	452
Distribution network	1,706
Goodwill	2,664
Deferred tax liability	(604)
Accounts payable and accrued liabilities	(1,080)
Customer deposits	(56)
Capital leases	<u>(94)</u>
Purchase consideration	<u>7,120</u>

During the measurement period, the fair value of acquired inventory was increased by \$94, taxes refundable to the vendor were increased by \$103, and changes in the measurement of the opening working capital calculation were identified, resulting in a net decrease of \$623 to due to vendor and increase of \$127 to accounts payable and accrued liabilities. These measurement period adjustments resulted in an offsetting decrease of \$487 to goodwill during the year ended December 31, 2018.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The components of the purchase consideration are as follows:

	\$
Cash paid	5,850
Cash held in trust	650
Due to vendor	620
Purchase consideration	<u>7,120</u>

Transaction costs related to the CMC acquisition in the year ended December 31, 2018 were an expense of \$5 [2017 – \$55] and are included in selling, general and administrative expenses.

During the year ended December 31, 2018, the allocation of the purchase price to acquired assets and liabilities was finalized. As at December 31, 2018, \$82 of cash held in trust remains and subsequent to the year ended December 31, 2018, the amounts due to vendor were paid in full.

[c] Junge Control Inc.

Effective December 28, 2017, the Company acquired 100% of the outstanding shares of Junge Control Inc. [“Junge”]. Based in the U.S., Junge manufactures automation, measurement and blending equipment for agriculture, fuel and aerial applications. The acquisition expands AGI’s product catalogue and strengthens AGI’s applied technology platform.

	\$
Purchase price [\$15,000 US]	18,818
Cash acquired	3,994
Working capital adjustment	210
Contingent consideration	<u>2,318</u>
Purchase consideration	<u>25,340</u>

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

	\$
Cash	3,994
Accounts receivable	892
Inventory	2,689
Prepaid expenses and other assets	47
Property, plant and equipment	1,901
Intangible assets	
Brand name	1,170
Distribution network	6,252
Customer backlog	516
Software	650
Goodwill	8,075
Deferred tax asset	85
Accounts payable and accrued liabilities	(458)
Customer deposits	(473)
Purchase consideration	<u>25,340</u>

During the measurement period, the fair value of acquired inventory was increased by \$121 with an offsetting decrease to goodwill in the year ended December 31, 2018.

The components of the purchase consideration are as follows:

	\$
Cash paid	1,882
Cash held in trust	1,882
Due to vendor	19,258
Contingent consideration	2,318
Purchase consideration	<u>25,340</u>

Transaction costs related to the Junge acquisition in the year ended December 31, 2018 were \$122 [2017 – \$131] and are included in selling, general and administrative expenses.

The contingent consideration was based on Junge meeting predetermined earnings targets in 2018. Upon acquisition, the Company assessed the likelihood of the maximum payment as high and the present value of the contingent consideration was determined using a 5% discount rate, resulting in a current liability of \$2,318 being recorded as at the date of acquisition. As at December 31, 2018, the Company determined Junge qualified for full payment of the contingent consideration and the amount of \$2,648 was moved from contingent consideration to the current portion of due vendor on the consolidated statements of financial position.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

During the year ended December 31, 2018, the amount due to vendor of \$19,258 was paid in full and the allocation of the purchase price to acquired assets and liabilities was finalized.

Subsequent to the year ended December 31, 2018, cash held in trust was released to the vendors.

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

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

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

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

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

From the date of acquisition, Danmare contributed to the results \$7,313 of revenue and \$1,099 of net loss. If the acquisition had taken place as at January 1, 2018, revenue from continuing operations in 2018 would have increased by an additional \$1,057 and profit from continuing operations in 2018 would have increased by an additional \$129.

The components of the purchase consideration are as follows:

	\$
Cash paid	6,000
Cash held in trust	525
Due to vendor	686
Purchase consideration	<u>7,211</u>

During the year ended December 31, 2018, the cash held in trust and the amounts due to vendor were paid.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Transaction costs related to the Danmare acquisition in the year ended December 31, 2018 were \$154 [2017 – nil] and are included in selling, general and administrative expenses.

During the year ended December 31, 2018, the allocation of the purchase price to acquired assets and liabilities was finalized.

[e] Sabe Group Companies

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

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

The \$4.4 million of post-combination expense is expected to be expensed over a three-year period and, during the year ended December 31, 2018, the Company recorded \$1,375 of post-combination expenses. In addition, contingent consideration of \$2.7 million is payable based on an earnings target.

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

	\$
Cash	3,708
Accounts receivable	2,090
Inventory	749
Prepaid expenses and other assets	135
Property, plant and equipment	4,233
Intangible assets	
Trade name	5,234
Distribution networks	6,493
Customer backlog	837
Goodwill	12,794
Accounts payable and accrued liabilities	(4,920)
Customer deposits	(585)
Income taxes payable	(123)
Deferred tax liability	(3,358)
Long-term payables	(4)
Long-term debt	(738)
Purchase consideration	<u>26,545</u>

The goodwill of \$12,794 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

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

From the date of acquisition, Sabe contributed to the results \$7,550 of revenue and \$1,612 of net loss. Revenue and net loss that occurred as though the acquisition date for the business had been as of the beginning of the annual reporting period is impracticable to disclose due to Sabe historically reporting under differing reporting standards and year-end.

The components of the purchase consideration are as follows:

	\$
Cash paid	23,432
Due to vendor	404
Contingent consideration	2,709
Purchase consideration	<u>26,545</u>

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Transaction costs related to the Sabe acquisition in the year ended December 31, 2018 were \$523 [2017 – nil] and are included in selling, general and administrative expenses.

7. Restricted cash

Restricted cash of \$827 [2017 – \$1,611] consists of cash on hand related to advance payment guarantees included in a sales contract with a customer.

8. Accounts receivable

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

	2018	2017
	\$	\$
Total current accounts receivable	135,770	100,863
Less allowance for doubtful accounts	(1,531)	(1,846)
	<u>134,239</u>	<u>99,017</u>
Non-current accounts receivable	8,122	4,180
Total accounts receivable, net	<u>142,361</u>	<u>103,197</u>
Of which		
Neither impaired nor past due	110,469	74,382
Not impaired and past the due date as follows		
Within 30 days	14,858	15,419
31 to 60 days	4,167	4,538
61 to 90 days	3,922	2,229
Over 90 days	10,476	8,475
Allowance for doubtful accounts	(1,531)	(1,846)
Total accounts receivable, net	<u>142,361</u>	<u>103,197</u>

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Trade receivables assessed to be impaired are included as an allowance in selling, general and administrative expenses in the period of the assessment. The movement in the Company's allowance for doubtful accounts for the years ended December 31, 2018 and December 31, 2017 was as follows:

	2018	2017
	\$	\$
Balance, beginning of year	1,846	1,819
Additional provision recognized	143	919
Amounts written off during the year as uncollectible	(457)	(859)
Exchange differences	(1)	(33)
Balance, end of year	1,531	1,846

9. Inventory

	2018	2017
	\$	\$
Raw materials	102,244	83,121
Finished goods	88,643	75,514
	190,887	158,635

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

10. Property, plant and equipment

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

	Land	Grounds	Buildings	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
Balance, January 1, 2017	16,078	4,013	92,536	2,724	2,432	10,329	4,781	92,298	31,608	256,799
Additions	4,017	1,002	25,895	432	389	2,118	1,110	25,749	(9,413)	51,299
Acquisitions	3,648	—	40,861	665	487	2,720	451	26,809	937	76,578
Classification as held for sale	(1,243)	(59)	(2,763)	—	—	—	—	—	—	(4,065)
Disposals	—	—	(3)	—	(43)	(935)	(303)	(1,149)	(33)	(2,466)
Impairment	(276)	(64)	(480)	—	—	—	—	—	—	(820)
Exchange differences	(502)	(175)	(5,304)	(43)	(35)	(232)	(91)	(4,187)	(1,906)	(12,475)
Balance, December 31, 2017	21,722	4,717	150,742	3,778	3,230	14,000	5,948	139,520	21,193	364,850
Depreciation										
Balance, January 1, 2017	—	688	8,086	853	1,095	4,749	3,023	28,848	—	47,342
Depreciation	—	276	3,742	275	280	1,632	822	9,444	—	16,471
Classification as held for sale	—	—	(543)	—	—	—	—	—	—	(543)
Disposals	—	—	(3)	—	(37)	(441)	(267)	(1,014)	—	(1,762)
Exchange differences	—	(32)	(223)	—	(12)	(58)	(63)	(813)	—	(1,201)
Balance, December 31, 2017	—	932	11,059	1,128	1,326	5,882	3,515	36,465	—	60,307
Net book value,										
January 1, 2017	16,078	3,325	84,450	1,871	1,337	5,580	1,758	63,450	31,608	209,457
December 31, 2017	21,722	3,785	139,683	2,650	1,904	8,118	2,433	103,055	21,193	304,543

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

AGI regularly assesses its long-lived assets for impairment. As at December 31, 2018 and 2017, the recoverable amount of each CGU exceeded the carrying amounts of the assets allocated to the respective units.

Capitalized borrowing costs

No borrowing costs were capitalized in 2018 or 2017.

11. Goodwill

	2018	2017
	\$	\$
Balance, beginning of year	234,669	227,450
Acquisition <i>[note 6]</i>	16,423	11,770
Exchange differences	5,527	(4,551)
Balance, end of year	256,619	234,669

12. Intangible assets

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

	Distribution networks	Brand names	Patents	Software	Order Backlog	Non-competes agreement	Development project	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, January 1, 2017	123,700	107,109	2,806	3,337	6,583	114	6,497	250,146
Internal development	—	—	71	925	—	—	3,914	4,910
Acquired	19,521	10,919	32	650	1,889	—	—	33,011
Impairment	—	—	—	—	—	—	(395)	(395)
Exchange differences	(2,454)	(2,176)	(81)	(121)	(202)	—	(153)	(5,187)
Balance, December 31, 2017	140,767	115,852	2,828	4,791	8,270	114	9,863	282,485
Amortization								
Balance, January 1, 2017	43,685	—	1,767	1,931	4,676	47	825	52,931
Amortization	8,517	—	172	615	3,232	16	451	13,003
Exchange differences	(1,324)	—	(24)	(95)	(157)	—	(5)	(1,605)
Balance, December 31, 2017	50,878	—	1,915	2,451	7,751	63	1,271	64,329
Net book value, December 31, 2017	89,889	115,852	913	2,340	519	51	8,592	218,156

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

Intangible assets include patents acquired through business combinations, which have a remaining life between 2 and 8 years. All brand names with a carrying amount of \$124,579 [2017 – \$115,852] have been classified as indefinite-life intangible assets, as the Company expects to maintain these brand names and currently no end point of the useful lives of these brand names can be determined. The Company assesses the assumption of an indefinite useful life at least annually. For definite-life intangible assets, the Company assesses whether there are indicators of impairment at subsequent reporting dates as a triggering event for performing an impairment test.

Intangible assets and research and development expenses for the year ended December 31, 2018, are net of combined federal and provincial scientific research and experimental development ["SR&ED"] tax credits in the amounts of \$55 and \$93, respectively. A number of specific criteria must be met in order to qualify for federal and provincial SR&ED investment tax credits. As at December 31, 2018, the Company had federal investment tax

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

credit carryforwards in the amount of nil [2017 – \$2,324], federal SR&ED investment tax credit carryforwards in the amount of \$947 [2017 – \$1,051], provincial SR&ED investment tax credit carryforwards in the amount of \$696 [2017 – \$345] and provincial manufacturing or processing tax credits in the amount of \$658 [2017 – \$466]; these began expiring in 2015.

Other significant intangible assets are goodwill [note 12] and the distribution network of the Company. The distribution network was acquired in past business combinations and reflects the Company's dealer network in North America. The remaining amortization period for the distribution network ranges from 2 to 20 years.

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

13. Impairment testing

The Company performs its annual goodwill impairment test as at December 31. The recoverable amount of the Company's group of CGUs has been determined based on value in use for the year ended December 31, 2018, using cash flow projections covering a five-year period. The pre-tax discount rates applied to the cash flow projections are 11.3% and 11.1% [2017 – 12.7% and 12.2%] and cash flows beyond the five-year period are extrapolated using a 3% growth rate [2017 – 3%], which is management's estimate of long-term inflation and productivity growth in the industry and geographies in which it operates.

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

	2018	2017
	\$	\$
Farm		
Goodwill	132,469	131,733
Intangible assets with indefinite lives	78,206	77,490
Commercial		
Goodwill	124,150	102,936
Intangible assets with indefinite lives	46,373	38,362
Total		
Goodwill	256,619	234,669
Intangible assets with indefinite lives	124,579	115,852

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Key assumptions used in valuation calculations

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

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

Gross margins

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

Discount rates

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

Market share assumptions

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

Growth rate estimates

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

14. Equity investment

In fiscal 2009, AGI made an equity investment in a privately held Canadian farming company ["Investco"].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

15. Assets held for sale

In 2015, AGI acquired Westeel, which included land and building in Saskatchewan that met the definition of assets held for sale. During the year ended December 31, 2018, the assets were sold for \$2,031, resulting in a further impairment of \$6 being recorded.

In 2017, AGI built a new facility in Brazil, and transferred all production activities from the existing facility to its new facility. AGI concluded that the land, grounds, and building at the existing facility met the definition of assets held for sale and it was recorded at the lower of cost and fair value less cost to sell. As at December 31, 2018, the carrying amount of the assets held for sale is \$746.

During the year ended December 31, 2018, buildings in Illinois and Iowa met the definition of assets held for sale. An impairment charge of \$226 was recorded and the carrying amount of \$786 was recorded as assets held for sale. During the year ended December 31, 2018, the building in Iowa was sold for proceeds of \$396 and a gain of \$8. As at December 31, 2018, the carrying amount of the assets held for sale is \$423.

16. Accounts payable and accrued liabilities

	2018	2017
	\$	\$
Trade payables	48,558	43,924
Other payables	19,860	26,043
Personnel-related accrued liabilities	30,586	23,507
Accrued outstanding service invoices	2,500	2,597
	<u>101,504</u>	<u>96,071</u>

Trade payables and other payables are non-interest bearing and are normally settled on 30- or 60-day terms. Personnel-related accrued liabilities include primarily vacation accruals, bonus accruals and overtime benefits. For explanations on the Company's credit risk management processes, refer to note 29.

17. Due to vendor

In the year ended December 31, 2013, the Company recorded a tax deduction in regards to the write-off of a receivable outstanding as at the date of the Tramco, Inc. ["Tramco"] acquisition. Per the terms of the purchase agreement, the tax benefit related to this deduction, net of 15% which is to the benefit of the Company, is required to be paid to the vendor of Tramco once the deduction has become statute barred. The amount payable to the vendor upon the deduction becoming statute barred of \$789 has been recorded as a current liability on the consolidated statements of financial position. Also included in due to vendor are amounts arising from business combinations [note 6].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

18. Provisions

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

	2018	2017
	\$	\$
Balance, beginning of year	5,909	6,654
Additional provisions recognized	7,907	5,539
Amounts written off	(6,244)	(6,762)
Acquisitions	113	478
Balance, end of year	7,685	5,909

19. Obligations under finance lease

	Interest rate %	Maturity	2018 \$	2017 \$
Current portion of obligations under finance lease				
Real estate lease	Euribor +2	2018	—	960
Equipment leases	4.3 – 4.8	2020-2022	65	23
Total current obligations under finance lease			65	983
Non-current portion of obligations under finance lease				
Equipment leases	4.3 – 4.8	2020-2022	165	19
Total non-current obligations under finance lease			165	19
Obligations under finance lease			230	1,002

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

20. Long-term debt

	Interest rate %	Maturity	2018 \$	2017 \$
Current portion of long-term debt				
Equipment financing	nil	2025	289	117
Non-current portion of long-term debt				
Equipment financing	nil	2025	809	443
Series B secured notes	4.4	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	34,105	31,363
Term A secured loan	3.6	2021	—	50,000
Term B secured loan	3.9	2022	—	40,000
Canadian Revolver	3.8 – 6.8	2023	69,203	158,067
U.S. Revolver	3.7 – 6.3	2023	144,877	—
			273,994	304,873
Less deferred financing costs			2,862	2,014
Total non-current long-term debt			271,132	302,859
Long-term debt			271,421	302,976

[a] Bank indebtedness

AGI has a swing line of \$40.0 million and U.S. \$20.0 million. The facilities bear interest at prime plus 0.45% to prime plus 1.5% per annum based on performance calculations. As at December 31, 2018, there was nil [2017 – nil] outstanding under the swing line.

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

[b] Long-term debt

During the year ended December 31, 2018, AGI entered into a refinancing agreement, under which the previous term loans and revolvers were replaced by the Canadian and U.S. Revolver. Included in deferred financing costs is \$2,549 of fees related to the refinancing agreement. AGI's revolver facilities of \$175 million and U.S. \$215 million are inclusive of amounts that may be allocated to the Company's swing line and can be drawn in Canadian or U.S. funds. The facilities bear interest at BA or LIBOR plus 1.45% to BA or LIBOR plus 2.5% and prime plus 0.45% to prime plus 1.5% per annum based on performance calculations. The combined effective interest rate for the year ended December 31, 2018 on AGI's revolver facilities was 5.3%. As at December 31, 2018, there

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

was \$214 million [2017 – \$158 million] outstanding under these facilities. Interest on a portion of the revolver line has been fixed at 3.8% through an interest rate swap contract [note 30]. Collateral for the revolving line ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

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

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

[c] Covenants

AGI is subject to certain financial covenants in its credit facility agreements that must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require AGI to maintain a debt to earnings before interest, taxes, depreciation and amortization [“EBITDA”] ratio of less than 3.25, the calculation of which excludes the convertible unsecured subordinated debentures from debt, and to provide debt service coverage of a minimum of 1.0. In the event of an acquisition in respect of which the aggregate consideration is \$75,000 or greater, the minimum debt to EBITDA ratio increases to 3.75 in the financial quarter in which the acquisition occurs and the three succeeding financial quarters, to 3.50 for the immediately succeeding quarter and subsequently will revert to 3.25. As at December 31, 2018 and December 31, 2017, AGI was in compliance with all financial covenants.

21. Convertible unsecured subordinated debentures

	2018	2017
	\$	\$
Current portion of convertible unsecured subordinated debentures	51,750	86,155
Non-current portion of convertible unsecured subordinated debentures		
Principal amount	247,500	213,000
Equity component	(11,794)	(14,212)
Accretion	5,222	7,498
Financing fees, net of amortization	(7,830)	(6,383)
Total non-current convertible unsecured subordinated debentures	233,098	199,903
Convertible unsecured subordinated debentures	284,848	286,058

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Year issued	Aggregate principal amount \$	Coupon	Conversion price \$	Conversion rate ⁽¹⁾	Number of common shares reserved for issuance upon conversion	Maturity date	Redeemable at par ⁽²⁾⁽³⁾
2014	51,750	5.25%	65.57	15.2509	789,233	31-Dec-19	01-Jan-19
2015	75,000	5.00%	60.00	16.6667	1,250,000	31-Dec-20	01-Jan-20
2017	86,250	4.85%	83.45	11.9832	1,033,551	30-Jun-22	30-Jun-21
2018	86,250	4.50%	88.15	11.3443	978,446	31-Dec-22	01-Jan-22

¹ No conversion options were exercised during the years ended December 31, 2018 and December 31, 2017.

² At the option of the Company, at par plus accrued and unpaid interest.

³ In the twelve-month period prior to the date on which the Company may, at its option, redeem any series of convertible debentures at par plus accrued and unpaid interest, such convertible debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares ("Common Shares") of the Company during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price.

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

On January 3, 2018 [and January 9, 2018, with respect to the over-allotment portion], the Company issued a new series of convertible unsecured subordinated debentures [the "2018 Debentures"] with an aggregate principal amount of \$86.25 million, a coupon of 4.50% and a maturity date of December 31, 2022.

On January 8, 2018, holders of \$8,678 2013 Debentures exercised the conversion option and were issued 157,781 common shares. On January 9, 2018, the Company redeemed its 2013 Debentures in accordance with the terms of the supplemental trust indenture dated December 17, 2013. Upon redemption, AGI paid to the holders of the 2013 Debentures the redemption price of \$77,477 equal to the outstanding principal amount of the 2013 Debentures redeemed including accrued and unpaid interest up to but excluding the Redemption date, less taxes deducted or withheld.

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Year Issued	Liability recorded upon issuance \$	Offering costs \$	Equity component \$
2014	51,750	2,663	2,164
2015	75,000	3,509	3,277
2017	86,250	3,673	4,290
2018	86,250	3,957	2,063

The liability component is accreted using the effective interest rate method. The equity component of \$8,203 on the consolidated statements of financial position is net of income taxes of \$3,028 and its pro rata share of financing costs of \$563.

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

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

During the year ended December 31, 2017, the Company recorded accretion, non-cash interest expense relating to financing costs, and interest expense on the coupon of:

Year Issued	2017		
	Accretion \$	Non-cash interest expense \$	Interest expense \$
2013	1,946	1,674	4,526
2014	426	495	2,717
2015	591	604	3,750
2017	496	424	2,791

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

22. Equity

[a] Common shares

Authorized

Unlimited number of voting common shares without par value

Issued

18,363,780 common shares

	Shares #	Amount \$
Balance, January 1, 2017	14,781,643	251,698
Dividend reinvestment shares issued from treasury <i>[note 22[d]]</i>	93,976	4,909
Settlement of 2012 EIAP obligation	133,570	5,300
Issuance of common shares	1,150,000	61,224
Convertible unsecured subordinated debentures	1,727	95
Dividend reinvestment plan costs	—	(27)
Balance, December 31, 2017	16,160,916	323,199
Dividend reinvestment shares issued from treasury <i>[note 22[d]]</i>	26,132	1,384
Settlement of 2012 EIAP obligation	144,451	5,820
Issuance of common shares	1,874,500	111,564
Convertible unsecured subordinated debentures <i>[note 21]</i>	157,781	8,678
Balance, December 31, 2018	18,363,780	450,645

On October 25, 2018, the Company closed its public offering for 1,874,500 common shares at a price of \$61.50 per share for gross proceeds of approximately \$115 million, which includes the exercise in full of the over-allotment option granted to the underwriters for additional gross proceeds of approximately \$15 million. Net proceeds after fees and taxes were approximately \$111 million. AGI used the net proceeds of the offering to partially repay outstanding indebtedness under its credit facilities, to pursue potential acquisition opportunities and for working capital and general corporate purposes.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

[b] Contributed surplus

	2018	2017
	\$	\$
Balance, beginning of year	20,956	16,940
Equity-settled director compensation <i>[note 23(b)]</i>	419	361
Dividends on EIAP	1,144	1,302
Obligation under EIAP <i>[note 23(a)]</i>	8,135	7,698
Settlement of EIAP obligation	(7,742)	(5,345)
Convertible unsecured subordinated debentures <i>[note 21]</i>	3,133	—
Balance, end of year	26,045	20,956

[c] Accumulated other comprehensive income

Accumulated other comprehensive income is comprised of the following:

Cash flow hedge reserve

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

Foreign currency translation reserve

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

Defined benefit plan reserve

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

[d] Dividends paid and proposed

In the year ended December 31, 2018, the Company declared dividends of \$40,650 or \$2.40 per common share [2017 – \$38,365 or \$2.40 per common share] and dividends on share compensation awards of \$1,144 [2017 – \$1,302]. In the year ended December 31, 2018, 26,132 common shares were issued to shareholders from treasury under the dividend reinvestment plan [the “DRIP”]. In the year ended December 31, 2018, dividends paid to shareholders were financed \$39,266 [2017 – \$33,456] from cash on hand and \$1,384 [2017 – \$4,909] 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 December 31, 2018, the Company declared dividends of \$0.20 per common share with record dates of January 31 and February 28.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

[e] Dividend reinvestment plan

On March 5, 2013, the Company announced the adoption of the DRIP. Eligible shareholders who elect to reinvest dividends under the DRIP will initially receive common shares issued from treasury at a discount of 4% from the market price of the common shares, with the market price being equal to the volume-weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days preceding the applicable dividend payment date. The Company incurred costs of nil [2017 – \$27] with respect to administration of the DRIP.

In March 2018, the Company suspended the active operation of its DRIP. Accordingly, dividends starting with the April 2018 dividend, payable on May 15, 2018 to shareholders of record on April 30, 2018, will not be reinvested through the DRIP, and shareholders who were enrolled in the program will automatically receive dividend payments in the form of cash.

[f] Shareholder protection rights plan

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

[g] Preferred shares

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

- [i] The aggregate number of preferred shares that would then be outstanding would exceed 50% of the aggregate number of common shares then outstanding; or
- [ii] The maximum aggregate number of common shares into which all of the preferred shares then outstanding could be converted in accordance with their terms, would exceed 20% of the aggregate number of common shares then outstanding; or
- [iii] The aggregate number of votes, which the holders of all preferred shares then outstanding would be entitled to cast at any meeting of the shareholders of the Company [other than meetings at which only holders of preferred shares are entitled to vote], would exceed 20% of the aggregate number of votes, which the holders of all common shares then outstanding would be entitled to cast at any such meeting.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

As at December 31, 2018 and December 31, 2017, no preferred shares were issued or outstanding.

23. Share-based compensation plans

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

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

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

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

Each Performance Award requires the Company to deliver to the holder at the Company's discretion either the number of common shares designated in the Performance Award multiplied by a Payout Multiplier or the equivalent amount in cash. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined measures in respect of the applicable period. The Payout Multiplier may not exceed 200%. As at December 31, 2018, 406,006 [2017 – 336,421] Restricted Awards and 440,672 [2017 – 406,789] Performance Awards have been granted. The Company has accounted for the EIAP as an equity-settled plan. The fair values of the Restricted Awards and the Performance Awards were based on the share price as at the grant date and the assumption that there will be no forfeitures. During the year ended December 31, 2018, AGI expensed \$7,585 for the EIAP [2017 – \$7,698].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

	EIAP	
	Restricted Awards	Performance Awards
	#	#
Outstanding, January 1, 2017	223,030	247,500
Granted	9,921	39,658
Vested	(72,942)	(73,983)
Forfeited	(3,530)	—
Balance, December 31, 2017	156,479	213,175
Granted	68,585	33,883
Vested	(70,918)	(73,281)
Forfeited <i>[note 31]</i>	(15,166)	(17,000)
Balance, December 31, 2018	138,980	156,777

There is no exercise price on the EIAP awards.

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

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

For the year ended December 31, 2018, an expense of \$419 [2017 – \$361] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 120,000, subject to adjustment in lieu of dividends, if applicable. For the year ended December 31, 2018, 7,820 [2017 – 6,690] common shares were granted under the DDCP, and as at December 31, 2018, a total of 78,153 [2017 – 70,332] common shares had been granted under the DDCP and 18,436 [2017 – 18,436] common shares had been issued.

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

For the year ended December 31, 2018, an expense of \$8,004 [2017 – \$8,057] was recognized for employee and Director services rendered.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

24. Other expenses (income)

	2018	2017
	\$	\$
[a] Other operating expense (income)		
Net loss on sale of property, plant and equipment	193	46
Net gain on disposal of assets held for sale	(8)	(955)
Loss (gain) on financial instruments <i>[note 29]</i>	2,061	(357)
Other	(2,267)	(3,379)
	<u>(21)</u>	<u>(4,645)</u>
[b] Finance (income) expense		
Interest income from banks	(202)	(120)
Loss (gain) on foreign exchange	16,605	(12,467)
	<u>16,403</u>	<u>(12,587)</u>
[c] Finance costs		
Interest on overdrafts and other finance costs	617	762
Interest, including non-cash interest, on debts and borrowings	17,097	14,449
Interest, including non-cash interest, on convertible debentures <i>[note 21]</i>	19,353	20,497
	<u>37,067</u>	<u>35,708</u>
[d] Cost of goods sold		
Depreciation	17,535	14,929
Amortization of intangible assets	2,503	4,146
Warranty provision (recovery)	1,776	(745)
Cost of inventory recognized as an expense	641,691	517,671
	<u>663,505</u>	<u>536,001</u>
[e] Selling, general and administrative expenses		
Depreciation	1,665	1,542
Amortization of intangible assets	11,328	8,857
Minimum lease payments recognized as an operating lease expense	3,347	2,890
Transaction and transitional costs	8,865	8,765
Selling, general and administrative	150,709	129,052
	<u>175,914</u>	<u>151,106</u>
[f] Employee benefits expense		
Wages and salaries	216,911	182,551
Share-based payment transaction expense <i>[note 23]</i>	8,004	8,057
Pension costs	5,336	4,426
	<u>230,251</u>	<u>195,034</u>
Included in cost of goods sold	148,342	122,557
Included in selling general and administrative expense	81,909	72,477
	<u>230,251</u>	<u>195,034</u>

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

25. Retirement benefit plans

AGI contributes to group retirement savings plans subject to maximum limits per employee. The expense recorded during the year ended December 31, 2018 was \$5,336 [2017 – \$4,426]. AGI expects to contribute \$5,554 for the year ending December 31, 2019.

On May 20, 2015, AGI acquired Westeel. Included in the acquisition was a defined benefit plan. For the purposes of the following discussion, beginning of period is defined as May 20, 2015.

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

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

The Company's defined benefit pension plan will measure the respective accrued benefit obligation and the fair value of plan assets at December 31 of each year. Actuarial valuations are performed annually or triennially as required. The Company's registered defined benefit plan was last valued on December 31, 2018. The present value of the defined obligation, and the related current service cost and past service cost, was measured using the Unit Credit Method.

The liabilities were revalued at December 31, 2018. We have used the same methods and assumptions used at December 31, 2017 for the purpose of estimating the liabilities at December 31, 2018. The following assumptions were used to determine the periodic pension expense and the net present value of the accrued pension obligations:

	2018	2017
	%	%
Expected long-term rate of return on plan assets	3.90	3.40
Discount rate on benefit costs	3.90	3.40
Discount rate on accrued pension and post-employment obligations	3.90	3.40
Rate of compensation increases	n/a	n/a

The weighted average duration of the defined benefit obligation as of December 31, 2018 is 14.8 years [December 31, 2017 – 16 years]. Compensation increases were not included in the valuation of the accrued pension obligation because the accrued benefit is not a function of salary. All members receive a fixed benefit rate

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

monthly for each year of credited service. This same benefit rate is received by all plan members regardless of salary level.

The following table outlines the key assumptions for 2018 and the sensitivity of changes in each of these assumptions on the defined benefit plan obligation. The sensitivity analysis is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Increase in assumption \$	Decrease in assumption \$
Impact of 0.5% increase/decrease in discount rate assumption	(853,997)	955,544
Impact of 1-year increase/decrease in life expectancy assumption	318,703	(326,870)

The net expense of \$135 [2017 – \$277] for the year is included in cost of goods sold.

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

	2018 \$	2017 \$
Plan assets		
Fair value of plan assets, beginning of year	13,794	13,015
Interest income on plan assets	459	510
Actual return on plan assets	(836)	439
Employer contributions	—	647
Benefits paid	(776)	(817)
Fair value of plan assets, end of year	12,641	13,794
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	13,976	12,633
Current service cost	124	286
Interest cost	470	502
Actuarial (gains) losses from changes in financial assumptions	(956)	1,150
Actuarial (gains) losses from experience adjustments	(112)	222
Benefits paid	(776)	(817)
Accrued benefit obligation, end of year	12,726	13,976
Net accrued benefit asset (liability)	(85)	(182)

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The net accrued benefit liability of \$85 [2017 – \$182] is included in non-current other liabilities.

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

	2018		2017	
	\$	%	\$	%
Canadian equity securities	3,843	30.4	4,179	30.3
U.S. equity securities	2,301	18.2	2,373	17.2
International equity securities	2,187	17.3	2,400	17.4
Fixed-income securities	4,310	34.1	4,842	35.1
	12,641	100.0	13,794	100.0

Management's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation. The actual return on plan assets was a (loss) gain of \$(836) [2017 – \$439].

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

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

The Company expects to make contributions of nil [2018 – nil] to the defined benefit plan in 2019. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

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

Asset volatility

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Change in fixed-income security yields

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

Life expectancy

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

26. Income taxes

The major components of income tax expense for the years ended December 31, 2018 and 2017 are as follows:

Consolidated statements of income

	2018	2017
	\$	\$
Current income tax expense		
Current income tax expense	10,517	6,712
Deferred tax expense		
Origination and reversal of temporary differences	1,429	5,333
Income tax expense reported in the consolidated statements of income	11,946	12,045

Consolidated statements of comprehensive income

	2018	2017
	\$	\$
Deferred tax related to items charged or credited directly to other comprehensive income during the year		
Unrealized gain on derivatives	(477)	902
Defined benefit plan reserve	63	(252)
Exchange differences on translation of foreign operations	736	(732)
Income tax charged (credited) directly to other comprehensive income	322	(82)

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
	\$	\$
Profit from continuing operations before income taxes	38,564	47,200
At the Company's statutory income tax rate of 27% [2017 – 27%]	10,412	12,744
Tax rate changes	587	(3,350)
Non-taxable portion of capital gains	—	(132)
Additional deductions allowed in a foreign jurisdiction	(398)	(456)
Tax losses not recognized as a deferred tax asset	2,887	3,643
Foreign rate differential	(3,011)	416
Non-deductible EIAP expense	152	492
State income tax, net of federal tax benefit	996	422
Unrealized foreign exchange loss (gain)	2,159	(3,164)
IFRS 15 transition adjustment <i>[note3]</i>	(412)	—
Change in uncertain tax position	(2,305)	—
Permanent differences and others	879	1,430
At the effective income tax rate 30.98% [2017 – 25.52%]	11,946	12,045

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

	Consolidated statements of financial position		Consolidated statements of income	
	2018 \$	2017 \$	2018 \$	2017 \$
Inventory	(90)	(90)	—	—
Property, plant and equipment	(30,701)	(21,428)	8,305	(157)
Intangible assets	(35,091)	(38,377)	(6,860)	(7,838)
Deferred financing costs	722	(213)	440	254
Accruals and long-term provisions	7,207	5,236	(1,768)	1,171
Tax loss carryforwards	—	96	96	1,268
Investment tax credits	(627)	(627)	—	—
Canadian exploration expenses	—	1,641	1,641	11,502
Capitalized development expenditures	(2,727)	(1,736)	991	690
Convertible debentures	(1,775)	(1,812)	(568)	(882)
Derivative instruments	(456)	—	456	—
EIAP liability	3,626	2,809	444	(1,586)
Equity swap	(1,585)	(2,597)	(1,012)	179
Other comprehensive income	—	(477)	—	—
Exchange difference on translation of foreign operations	—	—	(736)	732
Deferred tax expense			1,429	5,333
Deferred tax liabilities, net	(61,497)	(57,575)		
Reflected in the consolidated statements of financial position as follows				
Deferred tax asset	455	183		
Deferred tax liability	(61,952)	(57,758)		
Deferred tax liabilities, net	(61,497)	(57,575)		

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Reconciliation of deferred tax liabilities, net

	2018	2017
	\$	\$
Balance, beginning of year	(57,575)	(53,460)
Deferred tax recovery (expense) during the year recognized in profit or loss	(1,429)	(5,333)
Deferred tax asset (liability) set-up on business acquisition	(4,276)	1,454
Deferred tax recovery during the year recognized in common shares	1,375	788
Deferred tax expense during the year recognized in equity component of convertible debentures	(531)	(1,106)
Deferred tax recovery during the year recognized in contributed surplus	1,261	—
Deferred tax recovery (expense) during the year recognized in other comprehensive income	(322)	82
Balance, end of year	(61,497)	(57,575)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences and loss carryforwards become deductible. Based on the analysis of taxable temporary differences and future taxable income, management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities incurred, other than temporary differences in its Finnish operations of 5,870 euros [2017 – 5,886 euros] and its Brazilian operations of 63,919 BRL [2017 – 40,479 BRL]. Accordingly, the Company has recorded a deferred tax asset for all other deductible temporary differences as at December 31, 2018 and as at December 31, 2017.

Included in the current year's income tax expense was nil [2017 – nil] withholding tax paid on the repatriation of surplus from a subsidiary. As at December 31, 2018, there was no recognized deferred tax liability [2017 – nil] for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which a deferred tax asset has not been recognized, aggregate to \$622 [2017 – \$622].

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

review by taxation authorities. Therefore, it is possible that additional taxes could be payable by AGI, and the ultimate value of AGI's income tax assets and liabilities could change in the future, and that changes to these amounts could have a material effect on these consolidated financial statements.

There are no income tax consequences to the Company attached to the payment of dividends in either 2018 or 2017 by the Company to its shareholders.

27. Profit per share

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

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

	2018	2017
	\$	\$
Profit from continuing operations	26,618	35,155
Profit from discontinued operations	—	41
Profit attributable to shareholders for basic and diluted profit per share	<u>26,618</u>	<u>35,196</u>
Basic weighted average number of shares	16,811,440	15,932,808
Dilutive effect of DDCP	54,658	47,685
Dilutive effect of RSU	165,015	170,856
Diluted weighted average number of shares	<u>17,031,113</u>	<u>16,151,349</u>
Profit per share from continuing operations		
Basic	1.58	2.20
Diluted	1.56	2.17
Profit per share from discontinued operations		
Basic	0.00	0.01
Diluted	0.00	0.01
Profit per share		
Basic	1.58	2.21
Diluted	<u>1.56</u>	<u>2.18</u>

The 2014, 2015, 2017, and 2018 Debentures were excluded from the calculation of diluted profit per share for the years ended December 31, 2018 and 2017 because their effect is anti-dilutive.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

28. Statements of cash flows

[a] Net change in non-cash working capital

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

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

	2018	2017
	\$	\$
Accounts receivable	(33,683)	(939)
Inventory	(28,761)	(20,206)
Prepaid expenses and other assets	(8,241)	(4,860)
Accounts payable and accrued liabilities	3,097	5,710
Customer deposits	2,795	11,574
Provisions	1,776	(745)
	(63,017)	(9,466)

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

[b] Reconciliation of liabilities arising from financing activities

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

	December 31, 2016	Cash flows	Non-cash changes				Fair value	December 31, 2017
			Conversion	Foreign exchange	Accretion	Amortization		
	\$	\$	\$	\$	\$	\$	\$	\$
Long-term debt	207,348	107,513	—	(12,467)	—	582	—	302,976
Convertible unsecured subordinated debentures	201,210	82,387	(95)	—	3,459	3,197	(4,100)	286,058
Finance leases	1,233	(231)	—	—	—	—	—	1,002
Derivatives held to hedge long-term borrowings	715	—	—	—	—	—	(2,483)	(1,768)
Total liabilities from financing activities	410,506	189,669	(95)	(12,467)	3,459	3,779	(6,583)	588,268

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

29. Financial instruments and financial risk management

[a] Management of risks arising from financial instruments

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

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

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

Market risk

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

Foreign currency risk

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

A significant part of the Company's sales is transacted in U.S. dollars and euros and, as a result, fluctuations in the rate of exchange between the U.S. dollar, the euro and Canadian dollar can have a significant effect on the Company's cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, AGI denominates a portion of its debt in U.S. dollars. As at December 31, 2018, AGI's U.S. dollar denominated debt totalled \$152 million [2017 – \$151 million].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

AGI's sales denominated in U.S. dollars for the year ended December 31, 2018 were U.S. \$426 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency was U.S. \$318 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$55 million increase or decrease in sales and a total increase or decrease of \$41 million in its cost of goods sold and its selling, general and administrative expenses.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as AGI regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. AGI's Series B secured notes, Series C secured notes and convertible unsecured subordinated debentures outstanding at December 31, 2018 and December 31, 2017 are at a fixed rate of interest.

Interest rate swap contracts

The Company enters into interest rate swap contracts to manage its exposure to fluctuations in interest rates on its core borrowings. The interest rate swap contracts are derivative financial instruments and were 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. Through these contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rates between 3.6% and 4.3%. The underlying risk of the interest rate swaps is identical to the hedged risk component of the Company's borrowings. Therefore, the Company established a hedge ratio of 1:1 for its hedging relationships. The notional amounts are \$141,840 in aggregate, resetting the last business day of each month. The contracts expire between May 2019 and May 2022.

During the year, the hedge was discontinued as the forecasted cash flows were no longer probable as a result of the debt replacement [note 20]. Consequently, the derivatives were marked to market and a gain of \$2,785 was recorded gain on financial instruments in other operating income. The interest rate swap was reclassified from fair value through OCI to fair value through profit or loss. In the year ended December 31, 2018, the Company has recorded a gain on financial instruments of \$1,690 in other operating income [note 24(a)]. The amount of gain recorded in other comprehensive income during the year ended December 31, 2017 was \$1,768.

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

	Notional amount \$	Contract rate %	Realized gain \$
Canadian dollar contracts	90,000	3.6 – 4.3	681
U.S. dollar contracts	38,000	3.8	1,009

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The open interest rate swap contracts as at December 31, 2017 are as follows:

	Notional amount \$	Contract rate %	Unrealized gain \$
Canadian dollar contracts	90,000	3.6 – 4.3	974
U.S. dollar contracts	38,000	3.8	794

Equity swap

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

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

As at December 31, 2018, the equity swap agreement covered 650,000 common shares of the Company at a price of \$37.77, and the agreement matures on April 6, 2021.

As at December 31, 2018, the unrealized gain on the equity swap was \$5,959 [2017 – \$9,698] and in the year ended December 31, 2018, the Company has recorded a loss on financial instruments of \$3,739 [2017 – gain of \$409] in other operating expense [note 24(a)].

Credit risk

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

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

Liquidity risk

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

The tables below summarize the undiscounted contractual payments of the Company's financial liabilities as at December 31, 2018 and 2017:

December 31, 2018	Total	0 - 6 months	6 - 12 months	12 - 24 months	2 - 4 years	After 4 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	101,504	101,504	—	—	—	—
Dividends payable	3,673	3,673	—	—	—	—
Due to vendor	9,345	7,223	750	823	549	—
Contingent consideration	6,596	—	4,576	1,010	1,010	—
Term debt	349,460	7,251	7,251	14,453	28,777	291,728
Convertible unsecured subordinated debentures [includes interest]	253,383	7,266	59,016	86,814	100,287	—
Total financial liability payments	723,961	126,917	71,593	103,100	130,623	291,728

December 31, 2017	Total	0 - 6 months	6 - 12 months	12 - 24 months	2 - 4 years	After 4 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	96,071	96,071	—	—	—	—
Dividends payable	3,232	3,232	—	—	—	—
Due to vendor	34,034	34,034	—	—	—	—
Contingent consideration	9,342	—	5,494	3,848	—	—
Term debt	356,296	6,807	6,807	13,613	222,656	106,413
Convertible unsecured subordinated debentures [includes interest]	338,413	91,480	5,325	62,400	90,866	88,342
Total financial liability payments	837,388	231,624	17,626	79,861	313,522	194,755

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

[b] Fair value

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

	Level	December 31, 2018		December 31, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
Financial assets					
<i>Amortized cost:</i>					
Cash and cash equivalents	1	33,610	33,610	63,981	63,981
Cash held in trust and restricted cash	1	2,955	2,955	15,182	15,182
Accounts receivable	2	134,239	134,239	99,017	99,017
Note receivable	2	735	735	789	789
Assets held for sale	2	1,169	1,169	2,842	2,842
<i>Fair value through profit or loss:</i>					
Derivative instruments [Note 29(a)]	2	7,649	7,649	11,466	11,466
<i>Fair value through OCI:</i>					
Available-for-sale investment	3	—	—	900	900
Equity investment	3	900	900	—	—
Financial liabilities					
<i>Amortized cost:</i>					
Interest-bearing loans and borrowings	2	271,651	269,685	303,978	304,306
Accounts payable and accrued liabilities	2	101,504	101,504	96,071	96,071
Dividends payable	2	3,673	3,673	3,232	3,232
Due to vendor	2	9,349	9,349	34,034	34,034
Contingent consideration	3	6,386	6,386	9,037	9,037
Convertible unsecured subordinated debentures	2	284,848	305,935	286,058	314,129

During the reporting years ended December 31, 2018 and December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

The fair value 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.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

- Cash and cash equivalents, cash held in trust, restricted cash, accounts receivable, dividends payable, accounts payable and accrued liabilities, due to vendor, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments and loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives include interest rate swaps and equity swaps which are marked-to-market at each reporting period.
- The fair value of contingent considerations arising from business combinations is estimated by discounting future cash flows based on the probability of meeting set performance targets.
- AGI includes its equity 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 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.

Fair value ["FV"] hierarchy

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

Level 1

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

Level 2

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

Level 3

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

30. Capital disclosure and management

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

AGI manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities and as at December 31, 2018 and December 31, 2017, all of these covenants were complied with *[note 20(c)]*.

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

31. Related party disclosures

Relationship between parent and subsidiaries

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

Other relationships

Burnet, Duckworth & Palmer LLP provides legal services to the Company and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. The total cost of these legal services related to general matters was \$1,435 during the year ended December 31, 2018 [2017 – \$261], and \$803 is included in accounts payable and accrued liabilities as at December 31, 2018. These transactions are measured at the exchange amount and were incurred during the normal course of business.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Salthammer Inc. provides consulting services to the Company, and a Director of AGI is a minority shareholder of Salthammer Inc. The total cost of these consulting services related to international plant expansion project was \$80 [2017 – \$159] during the year ended December 31, 2018, and nil is included in accounts payable and accrued liabilities as at December 31, 2018.

Compensation of key management personnel of AGI

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

	2018	2017
	\$	\$
Short-term employee benefits	138	120
Termination benefits	1,770	—
Contributions to defined contribution plans	221	197
Salaries	7,410	7,044
Share-based payments	8,004	8,057
Total compensation paid to key management personnel	17,543	15,418

32. Reportable business segment

The Company manufactures agricultural equipment with a focus on grain handling, storage and conditioning products. As at December 31, 2018, aggregation of operating segments was applied to determine that the Company had only one reportable segment. The primary factors considered in the application of the aggregation criteria included the similar long-term average gross margins and growth rates across the segments, the nature of the products manufactured by the segments all being related to the handling, storage and conditioning of agricultural commodities, and the similarity in the production processes of the segments.

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

	Sales		Property, plant and equipment, goodwill, intangible assets and equity investment	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	329,778	280,887	407,987	398,416
United States	380,969	322,242	282,586	267,667
International	220,917	151,586	132,790	92,185
	931,664	754,715	823,363	758,268

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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.

33. 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 \$9,308 [2017 – \$12,909].

[b] Letters of credit

As at December 31, 2018, the Company has outstanding letters of credit in the amount of \$11,020 [2017 – \$9,340].

[c] Operating leases

The Company leases office and manufacturing equipment, warehouse facilities and vehicles under operating leases with minimum aggregate rent payable in the future as follows:

	\$
Within one year	3,317
After one year, but no more than five years	7,361
More than five years	381
	<u>11,059</u>

These leases have a life of between one and six years.

During the year ended December 31, 2018, the Company recognized an expense of \$3,347 [2017 – \$2,890] for leasing contracts. This amount relates only to minimum lease payments.

[d] 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.

34. Subsequent events

[a] Acquisitions

The Company acquired 100% of the shares of Improtech Ltd. ["Improtech"] on January 18, 2019 and 100% of the shares of IntelliFarms LLC on March 5, 2019 for a combined maximum purchase price of \$22.4 million. Upon closing \$13 million was payable to the vendors and \$9.4 million is payable over a three-year period. In addition, a contingent consideration of \$6 million is payable based on meeting certain earnings targets.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

Improtech is a provider of engineering solutions to the food and beverage industry. Improtech enhances AGI's ability to provide complete engineering solutions to an increasingly diverse customer base.

IntelliFarms LLC is a provider of hardware and software solutions that benefit grain growers, processors, and other participants in the agriculture market. IntelliFarms enhances AGI's ability to provide innovative technology solutions, including grain monitoring, field management and bin management, to its customer base.

On March 11, 2019, the Company entered into a binding purchase agreement to acquire 100% of the shares of Milltec Machinery Limited ["Milltec"], for a combined maximum purchase price of \$109.5 million, plus the potential for up to an additional \$38.4 million based on the achievement of financial targets. The transaction will be funded by AGI's revolving credit facility. Completion of the agreement is subject to a number of customary conditions in favour of the Company, including accounting and tax registrations and other corporate matters. Subject to satisfaction of these conditions precedent, closing is expected to occur by March 31, 2019.

Milltec is a provider of machinery and equipment for the grains milling and seeds processing industry. Milltec's products complement AGI's existing product offerings.

[b] Senior subordinated unsecured debentures

On February 25, 2019, the Company entered an agreement with a syndicate of underwriters led by CIBC Capital Markets, National Bank Financial Inc. and RBC Capital Markets [the "Underwriters"], pursuant to which AGI will issue on a "bought deal" basis, subject to regulatory approval, \$75 million aggregate principal amount of senior subordinated unsecured debentures [the "2019 Debentures"] at a price of \$1,000 per Debenture [the "Offering"]. AGI has also granted to the Underwriters an over-allotment option, exercisable in whole or in part for a period expiring 30 days following closing, to purchase up to an additional \$11.25 million aggregate principal amount of Debentures at the same price. If the over-allotment option is fully exercised, the total gross proceeds from the Offering to AGI will be \$86.25 million. Closing of the Offering is expected to occur on or about March 19, 2019.

The net proceeds of the Offering will be used to fund the redemption of the Company's 5.25% Convertible Unsecured Subordinated Debentures due December 31, 2019 ["2014 Debentures"], to repay existing indebtedness and for general corporate purposes.

The Debentures will bear interest from the date of issue at 5.40% per annum, payable semi-annually in arrears on June 30 and December 31 each year commencing June 30, 2019. The Debentures will have a maturity date of June 30, 2024.

The Debentures will not be redeemable by the Company before June 30, 2022, except upon the occurrence of a change of control of the Company in accordance with the terms of the indenture [the "Indenture"] governing the Debentures. On and after June 30, 2022 and prior to June 30, 2023, the Debentures may be redeemed at the Company's option at a price equal to 102.70% of their principal amount plus accrued and unpaid interest. On or after June 30, 2023, the Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2018

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

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

Concurrent with the Offering, AGI intends to redeem its 2014 Debentures in accordance with the terms of the supplemental trust indenture dated December 1, 2014. The redemption of the 2014 Debentures will be effective on April 2, 2019. Upon redemption, AGI will pay to the holders of 2014 Debentures the redemption price equal to the outstanding principal amount of the 2014 Debentures to be redeemed, together with all accrued and unpaid interest thereon up to but excluding the Redemption Date, less any taxes required to be deducted or withheld.