

Unaudited interim condensed consolidated financial statements

**Ag Growth International Inc.**

June 30, 2019

Ag Growth International Inc.

Unaudited interim condensed consolidated statements of financial position

[in thousands of Canadian dollars]

As at

	June 30, 2019 \$	December 31, 2018 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	14,085	33,610
Cash held in trust and restricted cash	1,454	2,955
Accounts receivable <i>[note 6]</i>	200,445	134,239
Inventory	198,358	190,887
Prepaid expenses and other assets	34,324	26,031
Current portion of note receivable	76	85
Due from vendor	1,610	—
Current portion of derivative instruments <i>[notes 24[b] and [c]]</i>	—	185
Income taxes recoverable	3,918	4,344
	<b>454,270</b>	<b>392,336</b>
<b>Non-current assets</b>		
Property, plant and equipment, net <i>[note 7]</i>	353,738	332,645
Right-of-use assets, net <i>[note 8]</i>	7,947	—
Goodwill <i>[note 9]</i>	344,474	256,619
Intangible assets, net <i>[note 10]</i>	270,349	233,199
Equity investment <i>[note 11]</i>	—	900
Non-current accounts receivable <i>[note 6]</i>	8,351	8,122
Note receivable	544	650
Derivative instruments <i>[notes 24[b] and [c]]</i>	11,911	7,464
Deferred tax asset	1,833	455
	<b>999,147</b>	<b>840,054</b>
Assets held for sale <i>[note 12]</i>	1,131	1,169
<b>Total assets</b>	<b>1,454,548</b>	<b>1,233,559</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>[note 25]</i>	131,787	101,504
Customer deposits	36,219	47,941
Dividends payable	3,730	3,673
Income taxes payable	4,883	4,286
Current portion of due to vendor	15,815	7,973
Current portion of contingent consideration	—	4,552
Current portion of obligations under finance lease	—	65
Current portion of lease liability <i>[note 13]</i>	2,510	—
Current portion of long-term debt <i>[note 14]</i>	27,687	289
Current portion of convertible unsecured subordinated debentures <i>[note 15]</i>	—	50,708
Provisions	8,982	7,685
	<b>231,613</b>	<b>228,676</b>
<b>Non-current liabilities</b>		
Other financial liabilities	1,032	85
Due to vendor	5,366	1,376
Contingent consideration	7,850	1,834
Optionally convertible redeemable preferred shares <i>[note 5[e]]</i>	26,196	—
Obligations under finance lease	—	165
Lease liability <i>[note 13]</i>	5,367	—
Long-term debt <i>[note 14]</i>	374,663	271,132
Convertible unsecured subordinated debentures <i>[note 15]</i>	236,091	234,140
Senior unsecured subordinated debentures <i>[note 16]</i>	82,494	—
Deferred tax liability	69,800	61,952
	<b>808,859</b>	<b>570,684</b>
<b>Total liabilities</b>	<b>1,040,472</b>	<b>799,360</b>
<b>Shareholders' equity <i>[note 17]</i></b>		
Common shares	455,135	450,645
Accumulated other comprehensive income	31,784	57,324
Equity component of convertible debentures	6,707	8,203
Contributed surplus	25,334	26,045
Deficit	(104,884)	(108,018)
<b>Total shareholders' equity</b>	<b>414,076</b>	<b>434,199</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,454,548</b>	<b>1,233,559</b>

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert  
Director

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

## Unaudited interim condensed consolidated statements of income

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

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
<b>Sales</b> <i>[note 26]</i>	<b>291,938</b>	260,155	<b>506,973</b>	473,821
Cost of goods sold <i>[note 19[d]]</i>	<b>209,303</b>	184,714	<b>360,583</b>	336,998
<b>Gross profit</b>	<b>82,635</b>	75,441	<b>146,390</b>	136,823
<b>Expenses</b>				
Selling, general and administrative <i>[note 19[e]]</i>	<b>53,947</b>	43,768	<b>105,084</b>	85,911
Other operating expense (income) <i>[note 19[a]]</i>	<b>5,103</b>	(1,185)	<b>(6,259)</b>	(1,969)
Impairment charge	<b>—</b>	—	<b>—</b>	232
Finance costs <i>[note 19[c]]</i>	<b>11,939</b>	8,815	<b>21,838</b>	17,216
Finance expense (income) <i>[note 19[b]]</i>	<b>(5,029)</b>	4,093	<b>(8,769)</b>	9,310
	<b>65,960</b>	55,491	<b>111,894</b>	110,700
Profit before income taxes	<b>16,675</b>	19,950	<b>34,496</b>	26,123
Income tax expense (recovery) <i>[note 21]</i>				
Current	<b>3,578</b>	4,672	<b>4,864</b>	5,098
Deferred	<b>581</b>	2,486	<b>3,894</b>	3,290
	<b>4,159</b>	7,158	<b>8,758</b>	8,388
<b>Profit for the period</b>	<b>12,516</b>	12,792	<b>25,738</b>	17,735
Profit per share <i>[note 22]</i>				
Basic	<b>0.68</b>	0.78	<b>1.39</b>	1.08
Diluted	<b>0.67</b>	0.75	<b>1.37</b>	1.06

See accompanying notes

Ag Growth International Inc.

## Unaudited interim condensed consolidated statements of comprehensive income

[in thousands of Canadian dollars]

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Profit for the period	<b>12,516</b>	12,792	<b>25,738</b>	17,735
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	—	136	—	726
Exchange differences on translation of foreign operations	<b>(10,545)</b>	(2,092)	<b>(24,212)</b>	12,078
Income tax effect on cash flow hedges	—	(37)	—	(197)
	<b>(10,545)</b>	(1,993)	<b>(24,212)</b>	12,607
Items that will not be reclassified to profit or loss				
Change in the fair value of equity investment	—	—	(900)	—
Actuarial loss (gain) on defined benefit plans <i>[note 11]</i>	<b>(416)</b>	540	<b>(586)</b>	486
Income tax effect on defined plans	<b>112</b>	(147)	<b>158</b>	(132)
	<b>(304)</b>	393	<b>(1,328)</b>	354
<b>Other comprehensive income (loss) for the period</b>	<b>(10,849)</b>	(1,600)	<b>(25,540)</b>	12,961
<b>Total comprehensive income for the period</b>	<b>1,667</b>	11,192	<b>198</b>	30,696

*See accompanying notes*

Ag Growth International Inc.

## Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Six-month period ended June 30, 2019

	Common shares	Equity component of convertible debentures	Contributed surplus	Deficit	Foreign currency reserve	Equity investment	Defined benefit plan reserve	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2019</b>	<b>450,645</b>	<b>8,203</b>	<b>26,045</b>	<b>(108,018)</b>	<b>57,417</b>	<b>—</b>	<b>(93)</b>	<b>434,199</b>
Profit for the period	—	—	—	25,738	—	—	—	25,738
Other comprehensive loss	—	—	—	—	(24,212)	(900)	(428)	(25,540)
Share-based payment transactions <i>[notes 17[a] and 17[b]]</i>	4,465	—	(1,861)	—	—	—	—	2,604
Dividends paid to shareholders <i>[note 17[c]]</i>	—	—	—	(22,317)	—	—	—	(22,317)
Dividends on share-based compensation awards <i>[note 17[c]]</i>	—	—	—	(287)	—	—	—	(287)
Conversion of convertible unsecured subordinated debentures <i>[note 17[a]]</i>	25	—	—	—	—	—	—	25
Redemption of convertible unsecured subordinated debentures <i>[note 15]</i>	—	(1,496)	1,150	—	—	—	—	(346)
<b>As at June 30, 2019</b>	<b>455,135</b>	<b>6,707</b>	<b>25,334</b>	<b>(104,884)</b>	<b>33,205</b>	<b>(900)</b>	<b>(521)</b>	<b>414,076</b>

See accompanying notes

Ag Growth International Inc.

## Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Six-month period ended June 30, 2018

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Cash flow hedge reserve \$	Foreign currency reserve \$	Defined benefit plan reserve \$	Total shareholders' equity \$
<b>As at January 1, 2018</b>	323,199	9,903	20,956	(92,842)	1,283	28,618	(263)	290,854
Profit for the period	—	—	—	17,735	—	—	—	17,735
Other comprehensive income	—	—	—	—	529	12,078	354	12,961
Share-based payment transactions <i>[notes 17[a] and 17[b]]</i>	5,230	—	(353)	—	—	—	—	4,877
Dividend reinvestment plan <i>[note 17[c]]</i>	1,384	—	—	—	—	—	—	1,384
Dividends paid to shareholders <i>[note 17[c]]</i>	—	—	—	(19,742)	—	—	—	(19,742)
Dividends on share-based compensation awards <i>[note 17[c]]</i>	—	—	—	(587)	—	—	—	(587)
Issuance of convertible unsecured subordinated debentures <i>[note 16]</i>	—	1,433	—	—	—	—	—	1,433
Conversion of convertible unsecured subordinated debentures <i>[note 16]</i>	8,678	—	—	—	—	—	—	8,678
<b>As at June 30, 2018</b>	<b>338,491</b>	<b>11,336</b>	<b>20,603</b>	<b>(95,436)</b>	<b>1,812</b>	<b>40,696</b>	<b>91</b>	<b>317,593</b>

See accompanying notes

# Unaudited interim condensed consolidated statements of cash flows

[in thousands of Canadian dollars]

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
<b>Operating activities</b>				
Profit before income taxes for the period	16,675	19,950	34,496	26,123
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	5,552	4,631	10,748	9,422
Depreciation of right-of-use assets	725	—	1,429	—
Amortization of intangible assets	6,910	3,362	10,768	6,502
Loss on sale of property, plant and equipment	54	286	—	216
Gain on redemption of convertible debentures	(55)	—	(55)	—
Impairment charge	—	—	—	232
Non-cash component of interest expense	1,205	927	3,097	1,813
Non-cash investment in derivative instruments	5,961	(1,012)	(4,242)	(1,245)
Share-based compensation expense	1,863	2,972	3,254	4,674
Employer contribution to defined benefit plans	(17)	—	(17)	(4)
Defined benefit plan expense	32	34	65	68
Contingent consideration	3,168	849	5,016	948
Equipment provided to vendor	—	—	—	(115)
Non-cash transaction costs	—	1,360	—	1,360
Translation loss (gain) on foreign exchange	(8,304)	5,621	(14,590)	13,027
	33,769	38,980	49,969	63,021
Net change in non-cash working capital				
balances related to operations <i>[note 23(a)]</i>	(37,694)	(15,555)	(67,552)	(39,907)
Non-current accounts receivable	507	1,165	(229)	462
Long-term payables	—	—	—	(135)
Settlement of EIAP obligation	(67)	(60)	(2,165)	(2,010)
Income taxes paid	(2,297)	(4,074)	(2,970)	(4,123)
<b>Cash provided by (used in) operating activities</b>	<b>(5,782)</b>	<b>20,456</b>	<b>(22,947)</b>	<b>17,308</b>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(11,001)	(8,259)	(21,111)	(16,233)
Acquisitions, net of cash acquired <i>[note 5]</i>	—	(1,211)	(112,619)	(26,343)
Transfer from cash held in trust	—	525	—	—
Transfer from (to) restricted cash	270	569	827	(557)
Proceeds from sale of property, plant and equipment	272	221	448	337
Proceeds from sale of assets held for sale	—	—	—	2,031
Development and purchase of intangible assets	(2,763)	(1,536)	(5,992)	(2,677)
Transaction costs paid and payable	(7,146)	25	(11,610)	2,729
<b>Cash used in investing activities</b>	<b>(20,368)</b>	<b>(9,666)</b>	<b>(150,057)</b>	<b>(40,713)</b>
<b>Financing activities</b>				
Issuance of long-term debt, net of issuance costs	9,898	—	138,547	—
Repayment of long-term debt	(220)	(27)	(297)	(87)
Repayment of obligations under finance lease	—	(4)	—	(944)
Repayment of obligation under lease liabilities	(543)	—	(1,253)	—
Change in interest accrued	4,154	(3,582)	7,888	(7,530)
Issuance of senior unsecured subordinated debentures, net of issuance costs <i>[note 16]</i>	(160)	97	82,640	82,293
Redemption of convertible unsecured subordinated debentures	(51,786)	—	(51,786)	(77,477)
Dividends paid in cash <i>[note 17(c)]</i>	(11,187)	(9,583)	(22,260)	(18,358)
<b>Cash provided by (used in) financing activities</b>	<b>(49,844)</b>	<b>(13,099)</b>	<b>153,479</b>	<b>(22,103)</b>
<b>Net decrease in cash during the period</b>	<b>(75,994)</b>	<b>(2,309)</b>	<b>(19,525)</b>	<b>(45,508)</b>
Cash and cash equivalents, beginning of period	90,079	20,782	33,610	63,981
<b>Cash and cash equivalents, end of period</b>	<b>14,085</b>	<b>18,473</b>	<b>14,085</b>	<b>18,473</b>
<b>Supplemental cash flow information</b>				
Interest paid	6,187	10,198	9,633	20,074

*See accompanying notes*

# Ag Growth International Inc.

## Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

### 1. Organization

Ag Growth International Inc. ["AGI" or the "Company"] is a provider of solutions for the global food infrastructure, including seed, fertilizer, grain, feed, and food processing systems. AGI is a listed company incorporated and domiciled in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

### 2. Statement of compliance and basis of presentation

#### [a] Statement of compliance

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

The unaudited interim condensed consolidated financial statements of AGI for the three- and six-month periods ended June 30, 2019, were authorized for issuance in accordance with a resolution of the directors on August 7, 2019.

#### [b] Basis of preparation

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company, Ag Growth International Inc. All values are rounded to the nearest thousand. They are prepared on the historical cost basis, except for derivative financial instruments, assets held for sale, equity investment, and optionally convertible redeemable preferred share ["OCRPS"] liability which are measured at fair value.

These unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year-end and do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2018, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same as those applied by the Company in its audited annual consolidated financial statements as at and for the year ended December 31, 2018, except for the adoption of new standards and interpretations effective as at January 1, 2019. As required by IAS 34, the nature and effect of those changes are disclosed in note 3.



## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

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#### [c] Standard issued but not yet effective

The standard issued but not yet effective up to the date of issuance of the Company's unaudited interim condensed consolidated financial statements is listed below which, the Company reasonably expects to be applicable at a future date. The Company intends to adopt this standard when it becomes effective.

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

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

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on January 1, 2020. Consequently, transactions that occurred in prior periods do not need to be reassessed.

### 3. Adoption of new accounting standards and policies

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

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

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

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

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

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

## Ag Growth International Inc.

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At inception or on reassessment of a contract that contains a lease component, the Company allocated the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings, AGI has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

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

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. On adoption of IFRS 16, AGI used the incremental borrowing rate as required by the standard.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rates, the amount expected to be payable under a residual value guarantee, or the Company's assessment of whether it will exercise a purchase, extension or termination option. Upon remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use asset and lease liabilities for short-term leases [12 months or less] and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a result of adoption of IFRS 16, the Company recorded a right-of-use asset and a lease liability of \$9,071 as at January 1, 2019 on the unaudited interim condensed consolidated statements of financial position.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

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

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

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

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

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

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

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

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

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

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

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

These amendments will be applied prospectively to any future plan amendments, curtailments, or settlements of the Company; as at June 30, 2019, there were no such amendments.

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

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

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

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

#### **4. Seasonality of business**

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

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

#### 5. Business combinations

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

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

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

Terms of the purchase agreement included \$6.0 million payable upon closing and \$3.0 million payable in annual instalments, contingent on certain conditions. The \$3.0 million is expected to be expensed over the three-year period. In addition, contingent consideration of \$1.0 million was payable based on an earnings target. In April 2018, the purchase agreement was amended such that payment of the first annual instalment of \$1.0 million and contingent consideration of \$1.0 million was guaranteed. Related to certain terms of the purchase agreement, \$1,797 was expensed during the year ended December 31, 2018. During the three- and six-month periods ended June 30, 2019, \$219 and \$438 were expensed, respectively, of which \$1,050 was paid during the six-month period ended June 30, 2019.

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 unaudited interim condensed consolidated financial statements

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

June 30, 2019

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.

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 and the allocation of the purchase price to acquired assets and liabilities was finalized. During the six-month period ended June 30, 2019, \$1,050 of post combination expense was paid to the vendor.

Transaction costs related to the Danmare acquisition in the three- and six-month periods ended June 30, 2019 were nil and \$40 [2018 – \$73 and \$143] and are included in selling, general and administrative expenses.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

#### [b] Sabe Group of Companies

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

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

The \$4.4 million of post-combination expense is expected to be expensed over the three-year period. During the three- and six-month periods ended June 30, 2019, \$663 and \$1,333 [2018 – nil and nil] related to certain terms of the purchase agreement was expensed. 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.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

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

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

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

The goodwill of \$14,131 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further deferred tax liabilities existing at acquisition were identified, resulting in a \$1,337 increase in deferred tax liability and an offsetting increase in goodwill, in the six-month period ended June 30, 2019.

The components of the purchase consideration are as follows:

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



## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

Transaction costs related to the Sabe acquisition in the three- and six-month periods ended June 30, 2019, were \$135 and \$208 [2018 – \$318 and \$318] and are included in selling, general and administrative expenses. During the six-month period ended June 30, 2019, the allocation of the purchase price to acquired assets and liabilities was finalized.

#### [c] Improtech Ltd.

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

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

The \$2 million of post-combination expense is expected to be expensed over a three-year period, contingent on certain conditions. During the three- and six-month periods ended June 30, 2019, \$306 and \$612 [2018 – nil and nil] related to certain terms of the purchase agreement was expensed.

The purchase has been accounted for by the acquisition method, with the results of Improtech included in the 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 unaudited interim condensed consolidated financial statements were prepared. Additional information is being gathered to finalize these provisional measurements, particularly with respect to intangible assets, right-of-use assets, lease liabilities, working capital and deferred taxes. Accordingly, the measurement of assets acquired and liabilities assumed may change upon finalization of the Company’s valuation and completion of the purchase price allocation, both of which are expected to occur no later than one year from the acquisition date.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

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

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

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

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

From the date of acquisition, Improtech contributed to the results \$801 of revenue and \$634 of net loss. If the acquisition had taken place as at January 1, 2019, revenue in 2019 would not have materially changed.

The components of the purchase consideration are as follows:

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

During the six-month period ended June 30, 2019, the amount due to vendor was paid in full.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

Transaction costs related to the Improtech acquisition in the three- and six-month periods ended June 30, 2019, were \$1 and \$111 [2018 – nil and nil] and are included in selling, general and administrative expenses.

#### [d] IntelliFarms LLC

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

	\$
Purchase price	19,350
Cash acquired	53
Working capital adjustment	(131)
Contingent consideration	5,105
Customer deposits	(1,566)
Total purchase price	22,811
Post-combination expense	(7,340)
Purchase consideration	15,471

The \$7.3 million of post-combination expense is expected to be expensed over a three-year period, contingent on certain conditions. During the three- and six-month periods ended June 30, 2019, \$902 and \$1,226 [2018 – nil and nil] related to certain terms of the purchase agreement was expensed. In addition, contingent consideration of \$5.1 million is payable based on an earnings target.

The purchase has been accounted for by the acquisition method, with the results of IntelliFarms included in the 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 unaudited interim condensed consolidated financial statements were prepared. Additional information is being gathered to finalize these provisional measurements particularly with respect to working capital, intangible assets, property, plant and equipment, right-of-use assets, goodwill, and lease liabilities. 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 unaudited interim condensed consolidated financial statements

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

June 30, 2019

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

	\$
Cash	53
Accounts receivable	225
Inventory	1,514
Prepaid expenses and other assets	61
Property, plant and equipment	803
Right-of-use assets	289
Intangible assets	
Trade name	387
Customer relationships	1,551
Customer backlog	378
Software	3,302
Goodwill	13,289
Accounts payable and accrued liabilities	(3,112)
Customer deposits	(2,740)
Lease liability	(65)
Long-term debt	(464)
Purchase consideration	15,471

The goodwill of \$13,289 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further information regarding inventory existing at acquisition was identified resulting in a \$36 decrease in inventory and an offsetting increase in goodwill in the period ended June 30, 2019.

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

From the date of acquisition, IntelliFarms contributed to the results \$5,458 of revenue and \$1,480 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 IntelliFarms historically reporting under differing reporting standards and differing year-end.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

The components of the purchase consideration are as follows:

	\$
Cash paid	12,010
Due from vendor	(1,644)
Contingent consideration	5,105
Purchase consideration	<u>15,471</u>

Transaction (recovery) costs related to the IntelliFarms acquisition in the three- and six-month periods ended June 30, 2019, were \$(15) and \$159 [2018 – nil and nil] and are included in selling, general and administrative expenses.

#### **[e] Milltec Machinery Limited**

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

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

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

The purchase has been accounted for by the acquisition method, with the results of Milltec 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 unaudited interim condensed consolidated financial statements were prepared. Additional information is being gathered to finalize these provisional measurements particularly with respect to intangible assets, goodwill and deferred taxes. Accordingly, the measurement of assets acquired and liabilities assumed may change upon finalization of the Company’s valuation and completion of the purchase price allocation, both of which are expected to occur no later than one year from the acquisition date.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

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

	\$
Cash	6,746
Restricted cash	1,425
Accounts receivable	11,796
Inventory	8,809
Prepaid expenses and other assets	4,489
Income taxes receivable	87
Property, plant and equipment	20,456
Intangible assets	
Trade name	12,764
Customer relationships	23,599
Customer backlog	3,835
Goodwill	79,841
Accounts payable and accrued liabilities	(16,347)
Other liabilities	(172)
Customer deposits	(2,533)
Deferred tax liability	(3,237)
Long-term payables	(290)
Purchase consideration	151,268

The goodwill of \$79,841 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further analysis of revenue recognition resulted in the reversal of certain sales and related costs. As a result, accounts receivable decreased by \$946, inventory increased by \$846, accounts payable and accrued liabilities decreased by \$98 and intangibles increased by \$197. In addition, the fair value of property, plant, and equipment acquired increased by \$129 and income taxes receivable decreased by \$240. All other adjustments net to \$60. These changes resulted in an overall increase of \$203 to goodwill.

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

From the date of acquisition, Milltec contributed to the results \$11,107 of revenue and \$3,576 of net loss. Revenue and net income that occurred as though the acquisition date for the business had been as of the beginning of the annual reporting period is impracticable to disclose due to Milltec historically reporting with a differing year-end.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

The components of the purchase consideration are as follows:

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

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

Transaction costs related to the Milltec acquisition in the three- and six-month periods ended June 30, 2019, were \$230 and \$2,020 [2018 – nil and nil] and are included in selling, general and administrative expenses.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

#### 6. Accounts receivable

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

	June 30, 2019	December 31, 2018
	\$	\$
Total accounts receivable	201,910	135,770
Less allowance for doubtful accounts	(1,465)	(1,531)
	200,445	134,239
Non-current accounts receivable	8,351	8,122
<b>Total accounts receivable, net</b>	<b>208,796</b>	<b>142,361</b>
<b>Of which</b>		
Neither impaired nor past due	161,015	110,469
Not impaired and past the due date as follows		
Within 30 days	21,075	14,858
31 to 60 days	9,578	4,167
61 to 90 days	8,587	3,922
Over 90 days	10,006	10,476
Less allowance for doubtful accounts	(1,465)	(1,531)
<b>Total accounts receivable, net</b>	<b>208,796</b>	<b>142,361</b>

#### 7. Property, plant, and equipment

	June 30, 2019	December 31, 2018
	\$	\$
<b>Balance, beginning of period</b>	<b>332,645</b>	<b>304,543</b>
Additions	21,111	36,549
Acquisitions <i>[note 5]</i>	21,276	4,470
Disposals	(448)	(1,145)
Classification as held for sale <i>[note 12]</i>	—	(786)
Transfer to right-of-use assets	(280)	—
Depreciation	(10,748)	(19,200)
Impairment	—	(226)
Exchange differences	(9,818)	8,440
<b>Balance, end of period</b>	<b>353,738</b>	<b>332,645</b>



# Ag Growth International Inc.

## Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

### 8. Right-of-use assets

	June 30, 2019 \$
<b>Balance, beginning of period<sup>1</sup></b>	<b>9,071</b>
Acquisitions <i>[note 5]</i>	420
Additions	63
Depreciation	(1,429)
Exchange differences	(178)
<b>Balance, end of period</b>	<b>7,947</b>

<sup>1</sup> Includes \$280 transferred from property, plant, and equipment for leases previously classified as finance lease under IAS 17 and IFRIC 4.

### 9. Goodwill

	June 30, 2019 \$	December 31, 2018 \$
<b>Balance, beginning of period</b>	<b>256,619</b>	234,669
Acquisitions <i>[note 5]</i>	94,783	16,423
Exchange differences	(6,928)	5,527
<b>Balance, end of period</b>	<b>344,474</b>	256,619

### 10. Intangible assets

	June 30, 2019 \$	December 31, 2018 \$
<b>Balance, beginning of period</b>	<b>233,199</b>	218,156
Internal development	5,992	7,397
Acquisitions <i>[note 5]</i>	46,564	15,994
Amortization	(10,768)	(13,831)
Exchange differences	(4,638)	5,483
<b>Balance, end of period</b>	<b>270,349</b>	233,199

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

#### 11. Equity investment

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

#### 12. Assets held for sale

Assets held for sale include a building in Illinois and land, grounds, and building in Brazil. As at June 30, 2019, the carrying amount of the assets held for sale is \$1,131.

#### 13. Lease liability

	Incremental borrowing rate %	Maturity	June 30, 2019 \$
Current	2.7 – 13.1	2020	2,510
Non-current	2.7 – 13.1	2020 – 2025	5,367
Lease liability			<u>7,877</u>

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

#### 14. Long-term debt

	Interest rate %	Maturity	June 30, 2019 \$	December 31, 2018 \$
<b>Current portion of long-term debt</b>				
Canadian swing line	3.7 – 6.8	2023	27,304	—
Equipment financing	nil	2025	383	289
			<b>27,687</b>	<b>289</b>
<b>Non-current portion of long-term debt</b>				
Equipment financing	nil	2025	897	809
Series B secured notes	4.4	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	32,718	34,105
Canadian Revolver	3.7 – 6.8	2023	140,754	69,203
U.S. Revolver	3.6 – 6.4	2023	178,245	144,877
			<b>377,614</b>	<b>273,994</b>
Less deferred financing costs			2,951	2,862
			<b>374,663</b>	<b>271,132</b>
<b>Long-term debt</b>			<b>402,350</b>	<b>271,421</b>

#### [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 June 30, 2019, there was \$27,304 [December 31, 2018 – nil] outstanding under the swing line.

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

#### [b] Long-term debt

AGI's revolver facilities of \$175 million and U.S. \$215 million are inclusive of amounts that may be allocated to the Company's swing line and can be drawn in Canadian or U.S. funds. The facilities bear interest at BA or LIBOR plus 1.45% to BA or LIBOR plus 2.5% and prime plus 0.45% to prime plus 1.5% per annum based on performance calculations. The combined effective interest rate for the three- and six-month periods ended June 30, 2019 on AGI's revolver facilities was 5.3%. As at June 30, 2019, there was \$319 million [December 31, 2018 – \$214 million] outstanding under these facilities. Interest on a portion of the revolver line has been fixed at 3.8% through an interest rate swap contract [note 24[b]]. Collateral for the revolving line ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

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 June 30, 2019 and December 31, 2018, AGI was in compliance with all financial covenants.

#### 15. Convertible unsecured subordinated debentures

	June 30, 2019 \$	December 31, 2018 \$
<b>Current portion of convertible unsecured subordinated debentures</b>	—	50,708
<b>Non-current portion of convertible unsecured subordinated debentures</b>		
Principal amount	247,475	247,500
Equity component	(9,629)	(9,629)
Accretion	4,459	3,536
Financing fees, net of amortization	(6,214)	(7,267)
	<b>236,091</b>	<b>234,140</b>
<b>Convertible unsecured subordinated debentures</b>	<b>236,091</b>	<b>284,848</b>

On April 2, 2019, the Company redeemed its 5.25% convertible unsecured subordinated debentures due December 31, 2019 ["2014 Debentures"] in accordance with the terms of the supplemental trust indenture dated December 1, 2014. Upon redemption, AGI paid to the holders of the 2014 Debentures the redemption price of

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

\$52,435 equal to the outstanding principal amount of the 2014 Debentures redeemed including accrued and unpaid interest up to but excluding the Redemption date, less taxes deducted or withheld.

Consequently, in the six-month period ended June 30, 2019, the Company expensed the remaining unamortized balance of \$425 of deferred fees related to the 2014 Debentures. The expense was recorded to finance costs in the unaudited interim condensed consolidated statements of income. Upon redemption, a gain of \$55 was recorded to gain on financial instruments and the equity component of the 2014 Debentures was reclassified to contributed surplus.

#### 16. Senior unsecured subordinated debentures

On March 19, 2019, the Company closed the offering of \$75 million aggregate principal amount of senior subordinated unsecured debentures [the "2019 Debentures"] at a price of \$1,000 per Debenture [the "Offering"]. On March 26, 2019, AGI closed the over-allotment option of \$11.25 million aggregate principal amount of 2019 Debentures at the same price.

The net proceeds of the Offering of \$82,100, net of fees, was used to fund the redemption of the Company's 2014 Debentures, to repay existing indebtedness and for general corporate purposes.

The 2019 Debentures 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 2019 Debentures have a maturity date of June 30, 2024.

The 2019 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 2019 Debentures. On and after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures may be redeemed at the Company's option at a price equal to 102.70% of their principal amount plus accrued and unpaid interest. On or after June 30, 2023, the 2019 Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.

The Company will have the option to satisfy its obligation to repay the principal amount of the 2019 Debentures due at redemption or maturity by issuing and delivering that number of freely tradable common shares in accordance with the terms of the Indenture.

The 2019 Debentures will not be convertible into common shares of the Company at the option of the holders at any time.

## Ag Growth International Inc.

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June 30, 2019

#### 17. Shareholders' Equity

##### [a] Common shares

	Shares #	Amount \$
<b>Balance, January 1, 2018</b>	16,160,916	323,199
Dividend reinvestment shares issued from treasury	26,132	1,384
Settlement of equity incentive award plan ["EIAP"] obligation	144,451	5,820
Issuance of common shares	1,874,500	111,564
Convertible unsecured subordinated debentures	157,781	8,678
<b>Balance, December 31, 2018</b>	18,363,780	450,645
Settlement of EIAP obligation	285,210	4,465
Convertible unsecured subordinated debentures	299	25
<b>Balance, June 30, 2019</b>	<b>18,649,289</b>	<b>455,135</b>

##### [b] Contributed surplus

	June 30, 2019 \$	December 31, 2018 \$
<b>Balance, beginning of period</b>	<b>26,045</b>	20,956
Equity-settled director compensation [note 18[b]]	<b>236</b>	419
Dividends on EIAP	<b>287</b>	1,144
Obligation under EIAP [note 18[a]]	<b>3,191</b>	8,135
Settlement of EIAP obligation	<b>(5,575)</b>	(7,742)
Convertible unsecured subordinated debentures	<b>1,150</b>	3,133
<b>Balance, end of period</b>	<b>25,334</b>	26,045

##### [c] Dividends paid and proposed

In the three-month period ended June 30, 2019, the Company declared dividends of \$11,189 or \$0.60 per common share [2018 – \$9,885 or \$0.60 per common share] and dividends on share compensation awards of \$132 [2018 – \$357]. In the six-month period ended June 30, 2019, the Company declared dividends of \$22,317 or \$1.20 per common share [2018 – \$19,742 or \$1.20 per common share] and dividends on share compensation awards of \$287 [2018 – \$587].

In the three-month period ended June 30, 2019, dividends paid to shareholders of \$11,187 [2018 – \$9,583] were financed from cash on hand and nil [2018 – \$299] by the dividend reinvestment plan [the "DRIP"]. In the six-month period ended June 30, 2019, dividends paid to shareholders were financed \$22,260 [2018 – \$18,358] from cash on hand and nil [2018 – \$1,384] by the DRIP.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

AGI's dividend policy is to pay cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Company's current monthly dividend rate is \$0.20 per common share. Subsequent to June 30, 2019, the Company declared dividends of \$0.20 per common share on July 31, 2019.

#### 18. Share-based compensation plans

##### [a] EIAP

During the three-month period ended June 30, 2019, 17,000 [2018 – nil] Restricted Awards ["RSU"] and 18,941 [2018 – nil] Performance Awards were granted. As at June 30, 2019, a total of 548,441 [December 31, 2018 – 406,006] Restricted Awards and 662,738 [December 31, 2018 – 440,672] Performance Awards had been granted under the 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 three- and six-month periods ended June 30, 2019, AGI expensed \$1,567 and \$3,018 for the EIAP [2018 – \$2,875 and \$4,473].

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

	EIAP	
	Restricted Awards	Performance Awards
	#	#
<b>Outstanding, January 1, 2018</b>	156,479	213,175
Granted	68,585	33,883
Vested	(70,918)	(73,281)
Forfeited	(15,166)	(17,000)
<b>Balance, December 31, 2018</b>	138,980	156,777
Granted	142,435	222,066
Vested	(34,975)	(247,151)
Forfeited	(7,000)	—
<b>Balance, June 30, 2019</b>	<b>239,440</b>	<b>131,692</b>

There is no exercise price on the EIAP awards.

Ag Growth International Inc.

**Notes to unaudited interim condensed consolidated financial statements**

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June 30, 2019

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

For the three- and six-month periods ended June 30, 2019, an expense of \$118 and \$236 [2018 – \$97 and \$201] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 120,000, subject to adjustment in lieu of dividends, if applicable. For the three- and six-month periods ended June 30, 2019, 2,131 and 4,060 [2018 – 1,707 and 3,653] common shares were granted under the DDCP and as at June 30, 2019, a total of 82,212 [December 31, 2018 – 78,153] common shares had been granted under the DDCP and 18,436 [December 31, 2018 – 18,436] common shares had been issued.



# Ag Growth International Inc.

## Notes to unaudited interim condensed consolidated financial statements

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June 30, 2019

### 19. Other expenses (income)

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
<b>[a] Other operating expense (income)</b>				
Net loss on disposal of property, plant and equipment	54	286	—	216
(Gain) loss on financial instruments	5,906	(1,012)	(4,532)	(1,245)
Other	(857)	(459)	(1,727)	(940)
	<b>5,103</b>	<b>(1,185)</b>	<b>(6,259)</b>	<b>(1,969)</b>
<b>[b] Finance expense (income)</b>				
Interest income from banks	(61)	(44)	(113)	(97)
Loss (gain) on foreign exchange	(4,968)	4,137	(8,656)	9,407
	<b>(5,029)</b>	<b>4,093</b>	<b>(8,769)</b>	<b>9,310</b>
<b>[c] Finance costs</b>				
Interest on overdrafts and other finance costs	390	533	531	219
Interest on lease liabilities	96	—	160	—
Interest, including non-cash interest, on debts and borrowings	5,488	3,482	9,750	7,301
Interest, including non-cash interest, on senior and convertible unsecured subordinated debentures [notes 15 and 16]	5,965	4,800	11,397	9,696
	<b>11,939</b>	<b>8,815</b>	<b>21,838</b>	<b>17,216</b>
<b>[d] Cost of goods sold</b>				
Depreciation of property, plant, and equipment	5,021	4,187	9,732	8,607
Depreciation of right-of-use assets	290	—	563	—
Amortization of intangible assets	2,554	691	2,992	1,211
Warranty provision (recovery)	255	(80)	(453)	237
Cost of inventory recognized as an expense	201,183	179,916	347,749	326,943
	<b>209,303</b>	<b>184,714</b>	<b>360,583</b>	<b>336,998</b>
<b>[e] Selling, general and administrative expenses</b>				
Depreciation of property, plant, and equipment	531	444	1,016	815
Depreciation of right-of-use assets	435	—	866	—
Amortization of intangible assets	4,356	2,671	7,776	5,291
Minimum lease payments recognized as lease expense	133	1,047	317	1,799
Transaction costs	4,429	2,987	9,190	3,291
Selling, general and administrative	44,064	36,619	85,919	74,715
	<b>53,948</b>	<b>43,768</b>	<b>105,084</b>	<b>85,911</b>
<b>[f] Employee benefits expense</b>				
Wages and salaries	64,925	58,763	123,194	110,920
Share-based payment expense [note 18]	1,863	2,972	3,254	4,674
Pension costs	1,590	1,281	3,233	2,550
	<b>68,378</b>	<b>63,016</b>	<b>129,681</b>	<b>118,144</b>
Included in cost of goods sold	43,308	42,479	82,695	76,740
Included in selling, general and administrative expense	25,070	20,537	46,986	41,404
	<b>68,378</b>	<b>63,016</b>	<b>129,681</b>	<b>118,144</b>

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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#### 20. Retirement benefit plans

During the three- and six-month periods ended June 30, 2019, the expense associated with the Company's defined pension benefit was \$32 and \$65, respectively [2018 – \$34 and \$68]. At June 30, 2019, the accrued pension benefit liability was \$720 [December 31, 2018 – \$85], which is included in other financial liabilities on the unaudited interim condensed consolidated statements of financial position.

#### 21. Income taxes

The major components of income tax expense for the three- and six-month periods ended June 30, 2019 and 2018 are as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
<b>Profit before income taxes</b>	<b>16,675</b>	19,950	<b>34,496</b>	26,123
Tax expense at the statutory rate of 27% [2018 – 27%]	4,502	5,386	9,314	7,053
Tax rate changes	174	184	121	228
Tax losses not recognized as a deferred tax asset	883	497	1,217	1,345
Foreign rate differential	(1,058)	(789)	(1,544)	(1,459)
Non-deductible EIAP expense	(37)	10	74	97
State income taxes, net of federal tax benefit	337	257	421	519
Unrealized foreign exchange loss (gain)	(1,201)	1,054	(2,032)	2,397
IFRS 15 transition adjustment	—	(19)	—	(414)
Change in uncertain tax position	—	—	—	(2,305)
Permanent differences and others	559	578	1,187	927
<b>Tax expense at the effective rate of 25.4% [2018 – 32.1%]</b>	<b>4,159</b>	7,158	<b>8,758</b>	8,388

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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June 30, 2019

#### 22. Profit per share

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

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Net profit	12,516	12,792	25,738	17,735
Dilutive effect of 2018 convertible debenture interest	—	901	—	—
Dilutive effect of 2015 convertible debenture interest	—	914	—	—
Net profit attributable to shareholders for basic and diluted profit per share	12,516	14,607	25,738	17,735
Basic weighted average number of shares	18,645,752	16,473,244	18,570,701	16,437,291
Dilutive effect of DDCP	61,668	53,861	60,708	52,895
Dilutive effect of RSU	226,321	171,865	214,253	177,052
Dilutive effect of 2018 convertible debentures	—	1,568,180	—	—
Dilutive effect of 2015 convertible debentures	—	1,250,000	—	—
Diluted weighted average number of shares	18,933,741	19,517,150	18,845,662	16,667,238
Profit per share				
Basic	0.68	0.78	1.39	1.08
Diluted	0.67	0.75	1.37	1.06

The 2015, 2017 and 2018 Debentures were excluded from the calculation of diluted profit per share in the three- and six-month periods ended June 30, 2019, because their effect is anti-dilutive.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2019

#### 23. Statement of cash flows

##### [a] Net change in non-cash working capital

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

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Accounts receivable	(41,030)	(20,687)	(52,762)	(48,082)
Inventory	17,437	3,967	2,749	(20,498)
Prepaid expenses and other assets	(946)	(922)	(3,472)	(3,296)
Accounts payable and accrued liabilities	(947)	8,967	1,901	24,764
Customer deposits	(12,799)	(6,800)	(17,244)	6,968
Provisions	591	(80)	1,276	237
	(37,694)	(15,555)	(67,552)	(39,907)

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June 30, 2019

[b] Reconciliation of liabilities arising from financing activities

	December 31, 2018 \$	Cash flows \$	Acquisitions \$	Conversion \$	Non-cash changes					June 30, 2019 \$
					Foreign exchange \$	Accretion \$	Amortization \$	Fair value \$	Other \$	
Long-term debt	271,421	138,250	464	—	(8,656)	—	266	605	—	402,350
Convertible unsecured subordinated debentures	284,848	(51,786)	—	(25)	—	1,040	1,616	—	398	236,091
Senior unsecured subordinated debentures	—	82,640	—	—	—	—	191	—	(337)	82,494
Lease liability	8,791	(1,253)	196	—	(151)	—	—	—	294	7,877
<b>Total liabilities from financing activities</b>	<b>565,060</b>	<b>167,851</b>	<b>660</b>	<b>(25)</b>	<b>(8,807)</b>	<b>1,040</b>	<b>2,073</b>	<b>605</b>	<b>355</b>	<b>728,812</b>

	December 31, 2017 \$	Cash flows \$	Acquisitions \$	Conversion \$	Non-cash changes					June 30, 2018 \$
					Foreign exchange \$	Accretion \$	Amortization \$	Fair value \$	Other \$	
Long-term debt	302,802	(87)	—	—	9,407	—	270	—	—	312,392
Convertible unsecured subordinated debentures	286,058	4,816	—	(8,678)	—	1,086	1,234	(2,063)	—	282,453
Finance leases	1,002	(944)	—	—	—	—	—	—	—	58
Derivatives held to hedge long- term borrowings	(1,768)	—	—	—	—	—	—	(726)	—	(2,494)
<b>Total liabilities from financing activities</b>	<b>588,094</b>	<b>3,785</b>	<b>—</b>	<b>(8,678)</b>	<b>9,407</b>	<b>1,086</b>	<b>1,504</b>	<b>(2,789)</b>	<b>—</b>	<b>592,409</b>

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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#### 24. Financial instruments and financial risk management

##### [a] Foreign exchange contracts

To mitigate exposure to the fluctuating rate of exchange, AGI may enter into foreign exchange forward contracts and denominate a portion of its debt in U.S. dollars. As at June 30, 2019, AGI's U.S. dollar denominated debt totaled \$182 million.

During the six-month period ended June 30, 2019, the Company entered into a short-term forward contract that resulted in a gain of \$235, which has been recorded in gain on financial instruments in the unaudited interim condensed consolidated statements of income.

The Company had no outstanding foreign exchange forward contracts at June 30, 2019.

##### [b] Interest rate swap contracts

The Company enters into interest rate swap contracts to manage its exposure to fluctuations in interest rates on its core borrowings. The interest rate swap contracts are derivative financial instruments and changes in the fair value were recognized as a gain (loss) on financial instruments in other operating income. Through these contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rates between 3.6% and 3.7%. The notional amounts are \$89,731 in aggregate, resetting the last business day of each month. The contracts expire between November 2020 and May 2022.

The interest rate swap contracts 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. In 2018, the hedge was discontinued as the forecasted cash flows were no longer probable. Consequently, the interest rate swap was reclassified from fair value through OCI to fair value through profit or loss. During the three- and six-month periods ended June 30, 2019, a loss of \$720 and \$1,612 [2018 – gain of \$136 and \$726] was recorded in gain (loss) on financial instruments. As at June 30, 2019, the unrealized gain on the interest rate swap was \$77.

##### [c] Equity swap

On March 18, 2016, the Company entered into an equity swap agreement with a financial institution [the "Counterparty"] to manage the cash flow exposure due to fluctuations in its share price related to the EIAP. Pursuant to this agreement, the Counterparty has agreed to pay the Company the total return of the defined underlying common shares, which includes both the dividend income they may generate and any capital appreciation. In return, the Company has agreed to pay the Counterparty a funding cost calculated daily based on floating rate option [CAD-BA-COOR] plus a spread of 2.0% and any administrative fees or expenses that are incurred by the Counterparty directly.

As at June 30, 2019, the equity swap agreement covered 722,000 common shares of the Company at a price of \$38.76, and the agreement matures on April 6, 2021.

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As at June 30, 2019, the unrealized gain on the equity swap was \$11,834, and in the three-and six-month periods ended June 30, 2019, the Company recorded a loss in other operating expense (income) of \$5,241 and gain of \$5,854 [2018 – gain of \$1,012 and \$1,245].

#### [d] Fair value

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

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

		June 30, 2019		December 31, 2018	
	Level	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Financial assets</b>					
<i>Amortized cost:</i>					
Cash and cash equivalents	1	14,085	14,085	33,610	33,610
Cash held in trust and restricted cash	1	1,454	1,454	2,955	2,955
Accounts receivable	2	200,445	200,445	134,239	134,239
Note receivable	2	620	620	735	735
<i>Fair value through profit or loss:</i>					
Derivative instruments	2	11,911	11,911	7,649	7,649
<i>Fair value through OCI:</i>					
Equity investment	3	—	—	900	900
<b>Financial liabilities</b>					
<i>Amortized cost:</i>					
Interest-bearing loans and borrowings	2	410,227	407,731	271,651	269,685
Accounts payable and accrued liabilities	2	131,787	131,787	101,504	101,504
Dividends payable	2	3,730	3,730	3,673	3,673
Due to vendor	2	21,181	21,181	9,349	9,349
Contingent consideration	3	7,850	7,850	6,386	6,386
Convertible unsecured subordinated debentures	2	236,091	229,752	284,848	305,935
Senior unsecured subordinated debentures	2	82,494	80,550	—	—
<i>Fair value through profit or loss:</i>					
Optionally convertible redeemable preferred shares	3	26,196	26,196	—	—

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June 30, 2019

During the period and year ended June 30, 2019 and December 31, 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

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

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

- Cash and cash equivalents, cash held in trust, restricted cash, accounts receivable, dividends payable, accounts payable and accrued liabilities, due to vendor, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments and loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives include interest rate swaps and equity swaps which are marked-to-market at each reporting period.
- The fair value of contingent consideration and the OCRPS' arising from business combinations is estimated by discounting future cash flows based on the probability of meeting set performance targets.
- AGI included its equity investment, which is in a private company, in Level 3 of the fair value hierarchy as it traded infrequently and has little price transparency. AGI reviews the fair value of this investment at each reporting period, and when recent arm's length market transactions are not available, management's estimate of fair value is determined using a market approach based on external information and observable conditions where possible, supplemented by internal analysis as required.

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

	June 30, 2019 \$	December 31, 2018 \$
<b>Contingent consideration and OCRPS:</b>		
<b>Balance, beginning of period</b>	<b>6,386</b>	9,037
Acquisitions	<b>31,598</b>	2,708
Fair value change	<b>1,357</b>	1,187
Reclass to due to vendor	<b>(4,000)</b>	(6,849)
Exchange differences	<b>(1,295)</b>	303
<b>Balance, end of period</b>	<b>34,046</b>	6,386



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Set out below are the significant unobservable inputs to valuation as at June 30, 2019:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
<b>Contingent consideration and OCRPS</b>	Discounted cash flow method	<ul style="list-style-type: none"> <li>Probability of achieving earnings target</li> </ul>	0%–100% achievement	Increase (decrease) in the probability would increase (decrease) the fair value
		<ul style="list-style-type: none"> <li>Weighted average cost of capital ["WACC"]</li> </ul>	5%–9.2%	Increase (decrease) in the WACC would result in decrease (increase) in fair value

#### 25. Related party disclosures

Burnet, Duckworth & Palmer LLP provides legal services to the Company, and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. During the three- and six-month periods ended June 30, 2019, the total (recovery) cost of these legal services related to general matters was \$(21) and \$244 [2018 – \$10 and \$574], and \$275 is included in accounts payable and accrued liabilities as at June 30, 2019.

Salthammer Inc. previously provided consulting services to the Company and a Director of AGI is a minority shareholder of Salthammer Inc. During the three- and six-month periods ended June 30, 2019, the total cost of these consulting services related to AGI's international plant expansion project was nil and nil [2018 – \$14 and \$80], and nil is included in accounts payable and accrued liabilities as at June 30, 2019.

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

#### 26. Reportable business segment

The Company is a provider of solutions for the global food infrastructure, including seed, fertilizer, grain, feed, and food processing systems. As at June 30, 2019, aggregation of operating segments was applied to determine that the Company had only one reportable segment. The primary factors considered in the application of the aggregation criteria included the similar long-term average gross margins and growth rates across the segments, the nature of the products manufactured by the segments all being related to the handling, storage and conditioning of agricultural commodities, and the similarity in the production processes of the segments.

## Ag Growth International Inc.

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

	Three-month period ended		Six-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Canada	108,423	95,713	185,834	169,035
United States	114,644	105,780	208,263	192,301
International	68,871	58,662	112,876	112,485
	291,938	260,155	506,973	473,821

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.

#### 27. 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 \$12,191 [2018 – \$11,266].

##### [b] Letters of credit

As at June 30, 2019, the Company has outstanding letters of credit in the amount of \$9,507 [December 31, 2018 – \$11,020].

##### [c] Legal actions

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

Ag Growth International Inc.

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### 28. Subsequent event

On July 16, 2019, the Company entered into an agreement to make a minority equity investment of \$15 million USD in Farmobile, Inc. ["Farmobile"]. AGI and Farmobile have also entered into a Strategic Commercial Agreement to expand the existing collaboration between the two companies. AGI has the right to appoint two directors to the Farmobile board of directors as a result of this investment. The investment was financed by a draw on AGI's credit facility.

Farmobile, headquartered in Leawood, Kansas, is an independent agriculture technology company. Farmobile provides hardware and software services for the real-time collection, organization, analysis, and storage of farm data.