

AG GROWTH INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Dated: November 14, 2019

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated comparative financial statements and accompanying notes of Ag Growth International Inc. ("AGI", the "Company", "we", "our" or "us") for the year ended December 31, 2018, the Management's Discussion and Analysis (the "Annual MD&A") of the Company for the year ended December 31, 2018 and the unaudited interim condensed consolidated comparative financial statements of the Company and accompanying notes for the three and nine month periods ended September 30, 2019.

The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ["IFRS"]. All dollar amounts are expressed in Canadian currency, unless otherwise noted.

Throughout this MD&A, references are made to "trade sales", "EBITDA", "adjusted EBITDA", "gross margin", "funds from operations", "payout ratio", "adjusted profit" and "diluted adjusted profit per share". A description of these measures and their limitations are discussed below under "Non-IFRS Measures".

This MD&A contains forward-looking information. Please refer to the cautionary language under the heading "Risks and Uncertainties" and "Forward-Looking Information" in this MD&A and in our most recently filed Annual Information Form, all of which are available under the Company's profile on SEDAR [www.sedar.com].

SUMMARY OF RESULTS

(thousands of dollars except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Trade Sales ⁽¹⁾⁽²⁾	261,134	243,120	770,344	719,868
Adjusted EBITDA ⁽¹⁾⁽³⁾	39,091	40,234	121,083	120,181
(Loss) Profit	(2,819)	20,744	22,919	38,479
Diluted (loss) profit per share	(0.15)	1.14	1.21	2.25
Adjusted profit ⁽¹⁾	17,542	12,637	42,739	46,382
Diluted adjusted profit per share ⁽¹⁾⁽⁴⁾	0.91	0.74	2.26	2.65

[1] See "Non-IFRS Measures".

[2] See "Operating Results – Trade Sales".

[3] See "Operating Results – EBITDA and Adjusted EBITDA".

[4] See "Detailed Operating Results – Diluted profit (loss) per share and diluted adjusted profit per share".

Trade sales in the third quarter of 2019 increased over the prior year due to higher sales of portable grain handling and drying equipment, sales growth in Brazil and a strong performance from AGI's recent acquisition in India. Sales growth in the quarter was tempered by challenging Farm conditions in both Canada and the U.S., as well as by global economic uncertainties and their impact on the timing of customer commitments, most notably in offshore markets. Gross margin percentages in the quarter remained strong and were consistent with 2018 levels, despite the impact of challenging market conditions on some product lines. Adjusted EBITDA as a percentage

of sales decreased 150 bps compared to Q3 2018 due to AGI's continued investment in sales and marketing initiatives, digital tools and its technology platform. The benefit from these investments is expected to gain momentum in future quarters, and to accelerate as our end user markets normalize from the transient items experienced in 2019. Profit and profit per share decreased compared to Q3 2018 due to non-cash losses on foreign exchange and the Company's equity compensation swap, as well as a Q3 2019 charge related to project rework. Adjusted profit and adjusted profit per share were consistent with the prior year (see "diluted profit (loss) per share and diluted adjusted profit per share").

BASIS OF PRESENTATION - ACQUISITIONS

When comparing 2019 results to 2018, we have in some cases noted the impact of acquisitions made in 2019 and 2018. When noted, both the 2019 and 2018 periods exclude results from acquisitions made in those years, namely Danmare Group Inc. and its affiliate Danmare, Inc. [collectively, "Danmare"] [February 22, 2018], Cobalt Investissement and its wholly owned subsidiaries [collectively "Sabe"] [July 26, 2018], Improtech Ltd. ["Improtech"] [January 18, 2019], IntelliFarms, LLC ["IntelliFarms"] [March 5, 2019], and Milltec Machinery Limited ["Milltec"] [March 28, 2019].

In the disclosure that follows, Danmare, Sabe, Improtech and Milltec are categorized as Commercial divisions. IntelliFarms is categorized as a Farm division.

OUTLOOK

Farm

A very late planting in the United States, combined with poor growing conditions in many regions, resulted in a delayed harvest and concerns regarding yield and crop quality. In Canada, mixed growing conditions throughout the year and a very late harvest have led to similar concerns. Nonetheless, AGI Farm equipment sales in North America in the first nine months of 2019 are higher than the previous year, due to strong sales of portable grain handling, aeration and drying equipment. While weather and harvest conditions may temper Farm demand in some product categories in the fourth quarter, management anticipates total Farm sales will approximate the fourth quarter of 2018, largely due to strength in portable grain handling sales. Inventory levels at the dealer level have been managed prudently throughout 2019 and management does not anticipate excess inventory carryover into 2020. The underlying demand drivers for AGI Farm equipment remain strong, and management expects robust demand in all product categories with the beginning of the new planting season in 2020.

Commercial

AGI's Commercial business has a global footprint and its demand drivers include global commodity production and consumption, infrastructure deficiencies in developing markets, storage and handling efficiencies and food security. Historically AGI has been focused primarily in the Grain platform, however in recent years has developed further into the Seed, Fertilizer, Feed and Food platforms.

In the United States, Commercial Grain handling activity is stable but for the last number of years has been restrained by depressed agricultural markets and international trade disputes. Nevertheless, AGI's sales order backlog in the United States is higher than the prior year due to progress in the Fertilizer and Food categories. In Canada, the Commercial market remains very

active due to continued investment in Grain infrastructure, including in port facilities and inland terminals. However, compared to the prior year, the Canadian Commercial backlog has decreased due to the impact of deliveries made on large Canadian Grain projects in Q3 2019 and because the 2018 comparative included a large Fertilizer project.

International sales in 2019 have been negatively impacted by global economic uncertainties, including trade disputes. Nonetheless, consistent with commentary from recent quarters, our sales order backlog is tracking to levels similar to the prior year and we continue to add to our 2020 order book. Sales in Brazil continue to gain momentum due to increasing brand and product awareness and improving economic conditions in the country. In India, precipitation amounts from the 2019 monsoon now approximate historical averages, and management anticipates seasonally strong sales in the fourth quarter of 2019. Overall, management anticipates Commercial sales in the fourth quarter of 2019 to approximate the prior year.

Summary

On balance, AGI's businesses have performed well in 2019 despite significant headwinds in North America and offshore, and management anticipates adjusted EBITDA in the fourth quarter of 2019 to approximate 2018 levels. EBITDA percentages in the fourth quarter of 2019 are expected to decrease compared to the prior year, largely due to investments in marketing and technology, the impact of poor harvest conditions on certain product categories, and due to Commercial sales mix.

Several factors exist today that suggest we are positioned to enter 2020 on very solid footing. First, there is a growing expectation that U.S. farmers will plant a record amount of corn acres in 2020, which would positively impact demand for portable grain handling equipment and grain storage systems. AGI Brazil continues to make progress both in manufacturing efficiencies and market development, and management anticipates improved results in the country in 2020. Internationally, our backlog related to 2020 has started to build and we currently expect to enter the year with a strong book of business. Finally, we expect growth from our platform acquisition in India due to increased market development and synergies with other AGI divisions. In summary, while we faced certain headwinds in the second half of 2019, we look forward with excitement to increasing our pace of growth in fiscal 2020.

Trade sales and adjusted EBITDA will be influenced by, among other factors, weather patterns, crop conditions, the timing of harvest and conditions during harvest and changes in input prices, including steel. The Company endeavors to mitigate its exposure to higher input costs through strategic procurement of steel, sales price increases and limiting the length of time commercial quotes remain valid; however, the pace and volatility of input price increases may negatively impact financial results. Other factors that may impact results include the impact of existing and potential future trade actions, the ability of our customers to access capital, the rate of exchange between the Canadian and U.S. dollars, changes in global macroeconomic factors as well as sociopolitical factors in certain local or regional markets, and the timing of Commercial customer commitments and deliveries.

IFRS 16, Leases ["IFRS 16"]

In 2019, the Company adopted IFRS 16 and recorded a right-of-use asset and a lease liability of \$9.1 million as at January 1, 2019. The Company applied IFRS 16 using the modified retrospective approach and accordingly comparative information has not been restated. In the comparative three- and nine-month periods ended September 30, 2018, adjusted EBITDA included expenses related to operating leases of \$0.9 million and \$2.7 million of which \$0.7 million and \$2.0 million would have related to right-of-use assets under IFRS 16. In the three- and nine-month periods ended

September 30, 2019 under IFRS 16, these payments are not categorized as an operating expense and instead AGI has recorded depreciation expense of \$0.7 million and \$2.2 million related to its right-of-use assets.

OPERATING RESULTS

Trade Sales [see "Non-IFRS Measures" and "Basis of Presentation - Acquisitions"]

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(thousands of dollars)	\$	\$	\$	\$
Trade Sales	261,134	243,120	770,344	719,868
Foreign exchange loss ⁽¹⁾	(936)	(954)	(3,173)	(3,881)
Total Sales	260,198	242,166	767,171	715,987

[1] A portion of foreign exchange gains and losses are allocated to sales.

Trade Sales by Geography

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(thousands of dollars)	\$	\$	\$	\$
Canada, excluding acquisitions	77,052	84,181	260,316	251,963
Acquisitions	1,744	926	4,314	2,179
Total Canada	78,796	85,107	264,630	254,142
U.S., excluding acquisitions	110,597	108,293	310,091	302,038
Acquisitions	7,888	1,479	18,893	2,961
Total U.S.	118,485	109,772	328,984	304,999
International, excluding acquisitions	47,369	45,703	139,419	158,163
Acquisitions	16,484	2,538	37,311	2,564
Total International	63,853	48,241	176,730	160,727
Total excluding acquisitions	235,018	238,177	709,826	712,164
Total acquisitions	26,116	4,943	60,518	7,704
Total Trade Sales ⁽¹⁾	261,134	243,120	770,344	719,868

[1] See "Non-IFRS Measures".

Trade Sales by Category

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2019 \$	2018 \$	2019 \$	2018 \$
Farm	121,190	117,574	371,937	359,698
Farm – acquisitions	4,218	-	9,676	-
Total Farm	125,408	117,574	381,613	359,698
Commercial	113,828	120,603	337,889	352,466
Commercial – acquisitions	21,898	4,943	50,842	7,704
Total Commercial	135,726	125,546	388,731	360,170
Total Trade Sales ⁽¹⁾	261,134	243,120	770,344	719,868

[1] See “Non-IFRS Measures”.

The movement in Q3 2019 trade sales compared to the prior year is summarized below:

Canada

- Trade sales in Canada, excluding acquisitions, decreased 8% over Q3 2018:
 - Farm sales increased in Q3 2019 due to higher sales of portable grain handling and aeration equipment. These gains were partially offset by lower storage sales that were negatively impacted by a challenging growing and harvest season.
 - Commercial sales in the quarter decreased as Q3 2018 included a large fertilizer project and there was no similar project in the current year. Sales related to large commercial grain infrastructure projects remained strong in Q3 2019.
- Sales from acquisitions relate primarily to Danmare and Improtech.

United States

- Trade sales in the U.S., excluding acquisitions, increased 2% over Q3 2018:
 - Farm sales in Q3 2019 were level with strong 2018 results due to robust demand for drying and aeration equipment. Demand for portable grain handling equipment and grain storage systems remained steady despite market conditions that have had a significant negative impact on other product categories in the agricultural equipment space.
 - Sales of Commercial equipment in Q3 2019 increased due to higher fertilizer project sales compared to 2018. Demand for Commercial grain handling equipment remains steady but subdued, largely due to the impact of trade uncertainties.
- Trade sales from acquisitions in the United States increased as a result of Danmare, Sabe and IntelliFarms.

International

- International trade sales, excluding acquisitions, increased 4% over Q3 2018:
 - International sales in the third quarter of 2019, net of acquisitions, remained strong and were the highest on record for a Q3.
 - Sales in Brazil continue to gain momentum due to increasing brand and product awareness and improving economic conditions in the country.
 - International sales in 2019 have been negatively impacted by global economic uncertainties, including trade disputes. Consistent with commentary from recent quarters, our sales order backlog is tracking to levels similar to the prior year and

we continue to add to our 2020 order book. The underlying demand for global grain handling infrastructure is intact and AGI's backlog internationally, excluding acquisitions, approximates 2018 levels.

- International sales from acquisitions relate primarily to Milltec and Sabe.

Gross Margin [see "Non-IFRS Measures"]

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Trade sales ⁽¹⁾	261,134	243,120	770,344	719,868
Cost of inventories	179,313	166,769	525,389	493,949
Gross margin ⁽¹⁾	81,821	76,351	244,955	225,919

Gross margin as a % of trade sales	31.3%	31.4%	31.8%	31.4%
---------------------------------------	-------	-------	-------	-------

[1] See "Non-IFRS measures".

Gross margin percentages remained consistent with the prior year as a strong operational performance in India and improving results in Brazil were offset by the impact of poor conditions in the U.S. and a less favourable overall sales mix compared to the prior year.

EBITDA and Adjusted EBITDA [see "Non-IFRS Measures"]

The following table reconciles profit before income taxes to EBITDA and Adjusted EBITDA.

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Profit (loss) before income taxes	(7,605)	26,838	26,891	52,961
Finance costs	11,626	10,883	33,464	28,099
Depreciation and amortization	13,321	8,309	36,266	24,233
Share of associate's net loss	788	-	788	-
EBITDA	18,130	46,030	97,409	105,293
Loss (gain) on foreign exchange	4,006	(2,413)	(2,413)	9,920
Share based compensation	1,388	2,311	4,642	6,985
Loss (gain) on financial instruments ⁽²⁾	7,592	(7,256)	3,060	(8,501)
M&A (recovery) expenses	(18)	582	3,046	1,450
Other transaction expenses ⁽³⁾	301	1,051	6,427	3,474
Gain (loss) on sale of PP&E	124	(71)	124	145
Fair value of inventory from acquisitions ⁽⁴⁾	522	-	1,742	1,183
Equipment rework ⁽⁵⁾	7,000	-	7,000	-
Impairment ⁽⁶⁾	46	-	46	232
Adjusted EBITDA ⁽¹⁾	39,091	40,234	121,083	120,181

- [1] See "Non-IFRS Measures".
- [2] See "Equity Compensation Hedge".
- [3] Includes restructuring and other acquisition related transition costs, as well as the accretion and other movement in contingent consideration and amounts due to vendors.
- [4] Non-cash expenses related to the sale of inventory that acquisition accounting required be recorded at a value higher than manufacturing cost.
- [5] To record the pre-tax charge for the estimated cost of rework for equipment supplied to two distinct projects. The charge relates to additional, time, material and services.
- [6] To record assets held for sale at estimated fair value.

DETAILED OPERATING RESULTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(thousands of dollars)	\$	\$	\$	\$
Sales				
Trade Sales	261,134	243,120	770,344	719,868
Foreign exchange loss	(936)	(954)	(3,173)	(3,881)
	260,198	242,166	767,171	715,987
Cost of goods sold				
Cost of inventories	186,836	166,769	534,132	493,949
Depreciation /amortization	7,852	5,014	21,139	14,832
	194,688	171,783	555,271	508,781
Selling, general and administrative expenses				
SG&A expenses	45,008	38,990	131,244	115,504
M&A (recovery) expenses	(18)	582	3,046	1,450
Other transaction expenses ⁽¹⁾	301	1,051	6,427	3,474
Depreciation /amortization	5,469	3,295	15,127	9,401
	50,760	43,918	155,844	129,829
Other operating expense (income)				
Net (gain) loss on disposal of PP&E	124	(71)	124	145
Net loss (gain) on financial instruments	7,592	(7,256)	3,060	(8,501)
Other	(846)	(514)	(2,573)	(1,454)
	6,870	(7,841)	611	(9,810)
Impairment charge	46	-	46	232
Finance costs	11,626	10,883	33,464	28,099
Finance expense (income)	3,025	(3,415)	(5,744)	5,895
Share of associate's net loss	788	-	788	-
Profit (loss) before income taxes	(7,605)	26,838	26,891	52,961

Income tax expense (recovery)	(4,786)	6,094	3,972	14,482
Profit (loss) for the period	(2,819)	20,744	22,919	38,479
Profit (loss) per share				
Basic	(0.15)	1.26	1.23	2.34
Diluted	(0.15)	1.14	1.21	2.25

[1] Includes restructuring and other acquisition related transition costs, as well as the accretion and other movement in contingent consideration and amounts due to vendors.

Impact of Foreign Exchange

Gains and Losses on Foreign Exchange

The 2019 loss (gain) on foreign exchange in finance expense (income) was a non-cash loss (gain) and related primarily to the translation of the Company's U.S. dollar denominated long-term debt at the rate of exchange in effect at the end of the three- and nine-month periods ended September 30, 2019. As at September 30, 2019, AGI has no outstanding foreign exchange contracts. See also "Financial Instruments – Foreign exchange contracts".

Sales and Adjusted EBITDA

AGI's average rate of exchange for the three- and nine-month periods ended September 30, 2019 was \$1.32 [2018 - \$1.31] and \$1.33 [2018 - \$1.29]. A weaker Canadian dollar relative to the U.S. dollar results in higher reported sales for AGI, as U.S. dollar denominated sales are translated into Canadian dollars at a higher rate. Similarly, a weaker Canadian dollar results in higher costs for U.S. dollar denominated inputs and SG&A expenses. In addition, a weaker Canadian dollar may result in higher input costs of certain Canadian dollar denominated inputs, including steel. On balance, adjusted EBITDA increases when the Canadian dollar weakens relative to the U.S. dollar.

Selling, General and Administrative Expenses ["SG&A"]

SG&A expenses for the three- and nine-month periods ended September 30, 2019 excluding M&A expenses, other transaction expenses and depreciation/amortization, were \$45.0 million [17.2% of trade sales] and \$131.2 million [17.0% of trade sales], respectively, versus \$39.0 million [16.0% of trade sales] and \$115.5 million [16.0% of trade sales], respectively, in 2018.

Excluding acquisitions, SG&A expenses for the three- and nine-month periods ended September 30, 2019 were \$39.1 million [16.6% of trade sales] and \$117.6 million [16.6% of trade sales], respectively, versus \$38.5 million [16.2% of trade sales] and \$114.9 million [16.1% of trade sales], respectively, in 2018. Variances to the prior year include the following:

- Sales & marketing expenses increased \$1.0 million as AGI continued to invest in market growth initiatives including further investment in branding initiatives and its digital platform.
- Share based compensation expense decreased \$1.0 million due to a change in anticipated achievement levels.
- No other individual variance greater was than \$0.5 million.

Finance Costs

Finance costs for the three- and nine-month periods ended September 30, 2019 were \$11.6 million and \$33.4 million, respectively, versus \$10.9 million and \$28.1 million, respectively, in 2018. In Q3 2018 finance costs included accelerated amortization of deferred finance fees in the amount of \$1.6 million related to the refinancing of AGI's senior credit facility. In 2019, finance costs have increased due to new debt drawn in conjunction with the March 2019 acquisition of Milltec.

Finance Expense (income)

Finance expense (income) for the three- and nine-month periods ended September 30, 2019 were \$3.0 million and \$(5.7 million), respectively, versus \$(3.4 million) and \$ 5.9 million, respectively, in 2018. The expense (income) in both periods relates primarily to non-cash translation of the Company's U.S. dollar denominated long-term debt at the rate of exchange in effect at the end of the year.

Share of associate's net loss

Share of associate's net loss for the three- and nine-month periods ended September 30, 2019 were \$0.8 million and \$0.8 million, respectively, versus nil and nil, respectively in 2018. The net loss relates to AGI's proportionate share of the net loss of the associate, since the date of AGI's investment.

Other Operating Expense (income)

Other operating expense (income) for the three- and nine-month periods ended September 30, 2019 were \$6.9 million and \$0.6 million, respectively, versus (\$7.8 million) and (\$9.8 million), respectively, in 2018. Other operating income includes non-cash gains and losses on financial instruments, including AGI's equity compensation hedge [see "Equity Compensation Hedge"].

Depreciation and amortization

Depreciation of property, plant and equipment; depreciation of right-of-use assets and amortization of intangible assets are categorized in the income statement in accordance with the function to which the underlying asset is related. The increase in the three-and nine-month periods ended September 30, 2019 primarily relates to the acquisitions of Milltec, Danmare, Sabe, Improtech and IntelliFarms as well as depreciation of right-of-use assets totaling \$0.7 million and \$2.2 million in the three and nine months, respectively, that resulted from the adoption of IFRS 16. Included in amortization in the third quarter of 2019 is an expense of approximately \$1.8 million related to the amortization of the backlog intangible recorded upon the acquisition of Milltec, which was fully amortized in Q3 2019.

Income tax expense

Current income tax expense

For the three- and nine-month periods ended September 30, 2019, the Company recorded current tax expense of \$3.2 million and \$8.1 million, respectively, versus \$5.8 million and \$10.9 million, respectively, in 2018. Current tax expense relates primarily to AGI's Canada, U.S., Italy, France and India subsidiaries.

Deferred income tax expense

For the three- and nine-month periods ended September 30, 2019, the Company recorded a deferred tax recovery of \$8.0 million and \$4.1 million, respectively, versus an expense of \$0.3 million and \$3.6 million, respectively, in 2018. The deferred tax recovery in 2019 relates primarily to changes in corporate tax rates, primarily to a decrease in rates in India, the increase of deferred tax assets plus a decrease in deferred tax liabilities that relate to recognition of temporary differences between the accounting and tax treatment of property, plant and equipment, accruals and long-term provisions.

Effective tax rate

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(thousands of dollars)	\$	\$	\$	\$
Current tax expense	3,225	5,814	8,089	10,912
Deferred tax expense (recovery)	(8,011)	280	(4,117)	3,570
Total tax expense (recovery)	(4,786)	6,094	3,972	14,482
Profit (loss) before income taxes	(7,605)	26,838	26,891	52,961
Total tax %	62.9%	22.7%	14.8%	27.3%

The effective tax rate in 2019 was impacted by items that were included in the calculation of earnings before tax for accounting purposes but were not included or deducted for tax purposes. Significant items are included in the tables under "Diluted profit (loss) per share and diluted adjusted profit per share".

Diluted profit (loss) per share and diluted adjusted profit per share

Diluted profit (loss) per share for the three- and nine-month periods ended September 30, 2019 were \$(0.15) and \$1.21, respectively, versus \$1.14 and \$2.25, respectively, in 2018. Profit (loss) per share in 2019 and 2018 has been impacted by the items enumerated in the table below, which reconciles profit (loss) to adjusted profit. In addition to the items enumerated in the table, profit (loss) and profit (loss) per share, and adjusted profit and adjusted profit per share, were impacted by the addition of 1.9 million common shares in Q4 2018, the proceeds of which contributed to funding the acquisition of Milltec on March 28, 2019. Due to the timing of the acquisition, the net earnings of AGI for the nine months ended September 30, 2019 includes only two seasonally low quarters of Milltec. Profit (loss) and adjusted profit in the third quarter of 2019 were also impacted by a \$1.7 million expense related to amortization of the backlog intangible recorded upon the acquisition of Milltec, which was fully amortized in Q3 2019, as well as \$0.5 million related to amortization of the fair value of inventory bump recorded upon acquisition, which was also fully amortized in Q3 2019.

(thousands of dollars except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Profit (loss)	(2,819)	20,744	22,919	38,479
Diluted profit (loss) per share	(0.15)	1.14	1.21	2.25
Loss (gain) on foreign exchange	4,006	(2,413)	(2,413)	9,920
Fair value of inventory from acquisition ⁽²⁾	522	-	1,742	1,183
M&A (recovery) expenses	(18)	582	3,046	1,450
Other transaction expenses ⁽³⁾	301	1,051	6,427	3,474
Loss (gain) on financial instruments	7,592	(7,256)	3,060	(8,501)
Loss (gain) on sale of PP&E	124	(71)	124	145
Impairment charge ⁽⁴⁾	46	-	46	232
Equipment rework ⁽⁵⁾	7,000	-	7,000	-
Share of associate's net loss	788	-	788	-
Adjusted profit ⁽¹⁾	17,542	12,637	42,739	46,382
Diluted adjusted profit per share ⁽¹⁾	0.91	0.74	2.26	2.65

[1] See "Non-IFRS Measures".

[2] Non-cash expenses related to the sale of inventory that acquisition accounting required be recorded at a value higher than manufacturing cost.

[3] Includes restructuring and other acquisition related transition costs, as well as the accretion and other movement in contingent consideration and amounts due to vendors.

[4] To record assets held for sale at estimated fair value.

[5] To record pre-tax charge for the estimated cost of rework for equipment supplied to two distinct projects. The charge relates to additional time, material and services.

QUARTERLY FINANCIAL INFORMATION

[thousands of dollars other than per share amounts and exchange rate]:

	2019				
	Average USD/CAD Exchange Rate	Sales		Basic Profit (loss) per Share \$	Diluted Profit (loss) per Share \$
		\$	\$		
Q1	1.33	215,035	13,222	0.71	0.70
Q2	1.34	291,938	12,516	0.68	0.67
Q3	1.32	260,198	(2,819)	(0.15)	(0.15)
YTD	1.33	767,171	22,919	1.23	1.21

2018					
	Average USD/CAD Exchange Rate	Sales \$	Profit (Loss) \$	Basic Profit (Loss) per Share \$	Diluted Profit (Loss) per Share \$
Q1	1.26	213,666	4,943	0.30	0.30
Q2	1.29	260,155	12,792	0.78	0.75
Q3	1.31	242,166	20,744	1.26	1.14
Q4	1.31	215,677	(11,861)	(0.66)	(0.66)
YTD	1.29	931,664	26,618	1.58	1.56

2017					
	Average USD/CAD Exchange Rate	Sales \$	Profit (Loss) \$	Basic Profit (Loss) per Share \$	Diluted Profit (Loss) per Share \$
Q4 ^[1]	1.27	167,182	(1,800)	(0.11)	(0.11)
YTD^[1]	1.31	749,397	33,664	2.11	2.08

[1] The company adopted IFRS 15 in 2018 without retrospective application and as a result reversed sales and adjusted EBITDA of \$5.3 million and \$1.5 million, respectively, that under IAS 18 had previously been recognized in 2017. For purposes of comparability, where applicable, these amounts have been adjusted for in the 2017 figures in the above table and elsewhere in the MD&A

The following factors impact the comparison between periods in the table above:

- AGI's acquisitions of Danmare [Q1 2018], Sabe [Q3 2018], Improtech [Q1 2019], IntelliFarms [Q1 2019] and Milltec [Q1 2019] significantly impacts comparisons between periods of assets, liabilities and operating results. See "Basis of Presentation - Acquisitions".
- Sales, gain (loss) on foreign exchange, profit (loss), and profit (loss) per share in all periods are impacted by the rate of exchange between the Canadian and U.S. dollars.

Interim period sales and profit historically reflect seasonality. The second and third quarters are typically the strongest primarily due to the timing of construction of commercial grain and fertilizer projects and higher in-season demand at the farm level. The seasonality of AGI's business may be impacted by several factors including weather and the timing and quality of harvest in North America. AGI's continued expansion into the seed, fertilizer, feed and food verticals should lessen the seasonality related to annual grain volumes and harvest conditions.

LIQUIDITY AND CAPITAL RESOURCES

AGI's financing requirements are subject to variations due to the seasonal and cyclical nature of its business. Sales historically have been higher in the second and third calendar quarters compared with the first and fourth quarters and cash flow has been lower in the first half of each calendar year. Internally generated funds are supplemented when necessary from external sources, primarily the Credit Facility [as defined below], to fund the Company's working capital requirements, capital expenditures, acquisitions and dividends. The Company believes that the debt facilities and debentures described under "Capital Resources", together with available cash and internally generated funds, are sufficient to support its working capital, capital expenditure, dividend and debt service requirements.

CASH FLOW AND LIQUIDITY

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2019 \$	2018 \$	2019 \$	2018 \$
Profit (loss) before tax	(7,605)	26,838	26,891	52,961
Items not involving current cash flows	25,706	373	41,179	37,271
Cash provided by operations	18,101	27,211	68,070	90,232
Net change in non- cash working capital	27,147	(12,688)	(40,405)	(52,595)
Non-current accounts receivable and other	42	(1,345)	(187)	(883)
Long-term payables	-	-	-	(135)
Settlement of EIAP obligation	(296)	57	(2,461)	(1,953)
Income tax paid	(5,114)	(2,096)	(8,084)	(6,219)
Cash flows provided by operating activities	39,880	11,139	16,933	28,447
Cash used in investing activities	(47,681)	(29,793)	(197,738)	(70,506)
Cash provided by financing activities	14,664	43,433	168,143	21,330
Net increase (decrease) in cash during the period	6,863	24,779	(12,662)	(20,729)
Cash, beginning of period	14,085	18,473	33,610	63,981
Cash, end of period	20,948	43,252	20,948	43,252

Cash provided by operating activities in the third quarter of 2019 increased significantly over 2018 due to an increase in cash generated from non-cash working capital, primarily from a reduction in inventory and higher cash deposits from customers. Cash used in investing activities relates to the acquisitions of Improtech, IntelliFarms and Milltec. Cash provided by financing activities relates primarily to draws on the Company's revolver facility to fund acquisitions and for general purposes, as well as the issuance of debentures in Q1 2019, less dividends paid.

Working Capital Requirements

Interim period working capital requirements typically reflect the seasonality of the business. AGI's collections of accounts receivable in North America are weighted towards the third and fourth quarters. This collection pattern, combined with historically high sales in the second and third quarters that result from seasonality, typically lead to accounts receivable levels in North America increasing throughout the year and peaking in the third quarter. Inventory levels in North America typically increase in the first and second quarters and then begin to decline in the third or fourth quarter as sales levels exceed production. The recent expansion of AGI's fertilizer business has had the effect of increasing working capital requirements in Q4 and Q1, and Milltec's seasonality is opposite of that described above. In addition, AGI's growing business in Brazil is less seasonal due to the existence of two growing seasons in the country and the increasing importance of Commercial business in the region. Growth in overall international business has resulted in an increase in the number of days accounts receivable remain outstanding and may result in increased

usage of working capital in certain quarters. Overall, requirements for AGI in 2019 are expected to be generally consistent with historical patterns.

Capital Expenditures

Maintenance capital expenditures in the three- and nine-month periods ended September 30, 2019 were \$4.1 million [1.6% of trade sales] and \$10.5 million [1.4% of trade sales], respectively, versus \$2.2 million [0.9% of trade sales] and \$7.7 million [1.1% of trade sales], respectively, in 2018. Maintenance capital expenditures in 2019 relate primarily to purchases of manufacturing equipment and building repairs.

AGI defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures encompass other investments, including cash outlays required to increase operating capacity or improve operating efficiency. AGI had non-maintenance capital expenditures in the three- and nine-month periods ended September 30, 2019 of \$11.6 million and \$26.4 million, respectively, versus \$6.8 million and \$17.5 million, respectively, in 2018. In 2019, non-maintenance capital expenditures relate primarily to the purchase of manufacturing equipment and facility expansions.

Management generally anticipates maintenance capital expenditures in a fiscal year to approximate 1.0% - 1.5% of sales. Non-maintenance capital expenditures are expected to approximate \$33 million in fiscal 2019. Maintenance and non-maintenance capital expenditures in 2019 are anticipated to be financed through bank indebtedness, cash on hand or through the Company's Credit Facility [see "Capital Resources"].

CONTRACTUAL OBLIGATIONS

The following table shows, as at September 30, 2019 the Company's contractual obligations for the periods indicated:

[thousands of dollars]	Total	2019	2020	2021	2022	2023	2024+
	\$	\$	\$	\$	\$	\$	\$
2015 Debentures	75,000	-	75,000	-	-	-	-
2017 Debentures	86,225	-	-	-	86,225	-	-
2018 Debentures	86,250	-	-	-	86,250	-	-
2019 Debentures	86,250	-	-	-	-	-	86,250
Long-term debt	438,006	31,635	381	350	216	347,207	58,217
Lease liability	10,757	834	2,777	2,095	1,658	1,034	2,359
Short term and low value leases	913	50	182	157	153	149	222
Due to vendor	12,777	4,048	4,329	2,908	1,492	-	-
Contingent consideration	5,959	-	-	-	5,959	-	-
Preferred shares liability	31,138	-	-	18,683	12,455	-	-
Purchase obligations ^[1]	8,126	8,126	-	-	-	-	-
Total obligations	841,401	44,693	82,669	24,193	194,408	348,390	147,048

[1] Net of deposit.

The Debentures relate to the aggregate principal amount of the debentures [see “Capital Resources - Debentures”] and long-term debt is comprised of the Credit Facility and non-amortizing notes [see “Capital Resources – Debt Facilities”].

CAPITAL RESOURCES

Assets and Liabilities

	September 30	September 30
	2019	2018
	\$	\$
(thousands of dollars)		
Total assets	1,466,504	1,230,486
Total liabilities	1,070,621	913,832

Cash

The Company’s cash balance at September 30, 2019 was \$20.9 million [2018 - \$43.3 million].

Debt Facilities

	Currency	Maturity	Total Facility	Amount	Effective
			[CAD] ^{[1][2]}	Drawn ^[1]	Interest Rate
			\$	\$	
[thousands of dollars]					
Canadian Swing Line	CAD	2023	40,000	31,522	4.87%
Canadian Revolver Tranche A ^[4]	CAD	2023	135,000	96,859	4.87%
Canadian Revolver Tranche B	USD	2023	52,972	50,000	4.89%
U.S. Revolver ^{[3][5]}	USD	2023	231,753	200,234	5.63%
Series B Notes ^[6]	CAD	2025	25,000	25,000	4.44%
Series C Notes ^[6]	USD	2026	33,108	33,108	3.70%
Equipment Financing ^[6]	various	2025	1,226	1,226	Various
Total			519,059	437,949	

(1) USD denominated amounts translated to CAD at the rate of exchange in effect on September 30, 2019 of \$1.3243.

(2) Excludes the \$200 million accordion available under AGI’s credit facility.

(3) Inclusive of USD \$20 million swing-line facility.

(4) Interest rate fixed for \$40 Million via interest rate swaps. See “Interest Rate Swaps”.

(5) Interest rate fixed for USD \$38 Million via interest rate swaps. See “Interest Rate Swaps”.

(6) Fixed interest rate.

The Company has a credit facility [the “Credit Facility”] with a syndicate of Canadian chartered and other banks that includes committed revolver facilities of \$446 million from which CAD or USD can be drawn. Amounts drawn under the Credit Facility 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 Company has issued USD \$25.0 million and CAD \$25.0 million aggregate principal amount of secured notes through a note purchase and private shelf agreement [the “Series B and Series C Notes”]. The Series B and C Notes are non-amortizing.

AGI is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio, and is in compliance with all financial covenants.

Debentures

Convertible Debentures

The following table summarizes the key terms of the convertible unsecured subordinated debentures of the Company that were outstanding as at September 30, 2019:

Year Issued / TSX Symbol	Aggregate Principal Amount \$	Coupon	Conversion Price \$	Maturity Date	Redeemable at Par ⁽¹⁾⁽²⁾
2015 [AFN.DB.C]	75,000,000	5.00%	60.00	Dec 31, 2020	Jan 1, 2020
2017 [AFN.DB.D]	86,225,000	4.85%	83.45	Jun 30, 2022	Jun 30, 2021
2018 [AFN.DB.E]	86,250,000	4.50%	88.15	Dec 31, 2022	Jan 1, 2022

[1] At the option of the Company, at par plus accrued and unpaid interest.

[2] 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 number of shares issued will be determined based on market prices at the time of issuance.

The Company redeemed its 2014 Debentures on April 2, 2019. Upon redemption, AGI paid to the holders of the 2014 Debentures \$52,435,000 equal to the outstanding principal amount of the 2014 Debentures redeemed including all accrued and unpaid interest up to but excluding the redemption date, less taxes deducted or withheld. Consequently, the Company expensed the remaining unamortized balance of \$425,000 of deferred fees related to the 2014 Debentures. The expense was recorded to finance costs in the unaudited interim condensed consolidated statements of income.

Debentures

On March 19, 2019, the Company closed the offering of \$75 million aggregate principal amount of senior subordinated unsecured debentures (the "5.4% Debentures") and on March 26, 2019, closed the over-allotment option of \$11.25 million. The following table summarizes the key terms of the 5.4% Debentures that were outstanding as at September 30, 2019:

Year Issued / TSX Symbol	Aggregate Principal Amount \$	Coupon	Maturity Date
2019 [AFN.DB.F]	86,250,000	5.40%	June 30 2024

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.4% Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligation to pay interest on the 5.4% Debentures by delivering sufficient common shares. The number of shares issued would be determined based on market prices at the time of issuance.

SUBSEQUENT EVENT

On October 30, 2019, the Company announced an offering of \$75 million aggregate principal amount of senior subordinated unsecured debentures (the "5.25% 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 principal amount of 5.25% 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 November 19, 2019. The Offering is subject to normal regulatory approvals, including approval of the Toronto Stock Exchange.

The 5.25% Debentures will bear interest from the date of issue at 5.25% per annum, payable semi-annually in arrears on June 30 and December 31 each year commencing June 30, 2020. The 5.25% Debentures will have a maturity date of December 31, 2024.

The 5.25% Debentures will not be redeemable by the Company before December 31, 2022, except upon the occurrence of a change of control of the Company in accordance with the terms of the indenture (the "Indenture") governing the 5.25% Debentures. On and after December 31, 2022 and prior to December 31, 2023, the 5.25% Debentures may be redeemed at the Company's option at a price equal to 102.625% of their principal amount plus accrued and unpaid interest. On or after December 31, 2023, the 5.25% 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 5.25% 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 5.25% Debentures will not be convertible into common shares of the Company at the option of the holders at any time.

AGI intends to redeem in full the Company's 5.00% convertible unsecured debentures due December 31, 2020 (the "2015 Debentures") in accordance with the terms of the indenture governing the 2015 Debentures. The net proceeds of the Offering will initially be used to repay a portion of the Company's revolving bank debt which will then be redrawn to fund the redemption of the outstanding 2015 Debentures.

COMMON SHARES

The following number of Common Shares were issued and outstanding at the dates indicated:

	# Common Shares
December 31, 2018	18,363,780
Settlement of EIAP obligation	291,421
Conversion of convertible unsecured subordinated debentures	299
September 30, 2019	18,655,500
Settlement of EIAP obligation	-
November 14, 2019	18,655,500

At November 14, 2019:

- 18,655,500 Common Shares are outstanding;
- 1,865,500 Common Shares are available for issuance under the Company's Equity Award Incentive Plan [the "EIAP"], of which 1,129,318 have been granted and 736,182 remain unallocated;
- 85,136 deferred grants of Common Shares have been granted under the Company's Directors' Deferred Compensation Plan and 18,436 Common Shares have been issued; and
- 3,261,698 Common Shares are issuable on conversion of the outstanding convertible debentures, of which there are an aggregate principal amount of \$248 million outstanding.

AGI's Common Shares trade on the TSX under the symbol AFN.

DIVIDENDS

AGI declared dividends to shareholders in the three- and nine-month period ended September 30, 2019 of \$11.2 million and \$33.5 million, respectively, versus \$9.9 million and \$29.6 million, respectively, in 2018. AGI's policy is to pay monthly dividends. The Company's Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be appropriate. Dividends in a fiscal year are typically funded entirely through cash from operations, although due to seasonality dividends may be funded on a short-term basis by the Company's operating lines. In the three-month period ended September 30, 2019, dividends paid to shareholders of \$11.2 million [2018 – \$9.9 million] were financed from cash on hand and nil [2018 – nil] by the DRIP. AGI suspended its DRIP in Q2 2018.

FUNDS FROM OPERATIONS AND PAYOUT RATIO [see "Non-IFRS Measures"]

Funds from operations ["FFO"], defined under "Non-IFRS Measures", is adjusted EBITDA less cash taxes, cash interest expense, realized losses on foreign exchange and maintenance capital expenditures. The objective of presenting this measure is to provide a measure of free cash flow. The definition excludes changes in working capital as they are necessary to drive organic growth and have historically been financed by the Company's operating facility [See "Capital Resources"]. Funds from operations should not be construed as an alternative to cash flows from operating, investing, and financing activities as a measure of the Company's liquidity and cash flows.

(thousands of dollars)	Nine Months Ended September 30		Last Twelve Months Ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Adjusted EBITDA ⁽¹⁾	121,083	120,181	149,097	141,428
IFRS 15 adjustment ⁽¹⁾	-	-	-	(1,532)
Interest expense	(33,464)	(28,099)	(42,432)	(39,071)
Non-cash interest	4,417	5,042	5,581	8,374
Cash taxes	(8,084)	(6,219)	(11,840)	(7,438)
Maintenance CAPEX	(10,475)	(7,768)	(13,998)	(10,365)
Funds from operations ⁽²⁾	73,477	83,137	86,408	91,396
Dividends	33,510	29,633	44,527	39,323
Payout Ratio	46%	36%	52%	43%

[1] The Company adopted IFRS 15 in 2018 without retrospective application and as a result reversed sales and adjusted EBITDA of \$5.3 million and \$1.5 million, respectively, that under IAS 18 had previously been recognized in 2017. For purposes of comparability, these amounts have been adjusted for in the last twelve months ended September 30, 2018 figures in the above table.

[2] See "Non-IFRS Measures".

The increase in payout ratio is partially related to the acquisition of Milltec. Milltec's sales and adjusted EBITDA reflect agricultural seasonality in India, and historically approximately 70% of their sales have occurred in the first and fourth calendar quarters. Milltec was acquired on March 29, 2019 and accordingly the nine month and LTM periods in the table above include only Milltec's seasonally low two quarters. In addition, AGI added 1.9 million common shares in Q4 2018, the proceeds of which contributed to funding the acquisition of Milltec on March 28, 2019.

FINANCIAL INSTRUMENTS

Foreign exchange contracts

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollars and to a lesser extent to variations in exchange rates between the Euro and the Canadian dollar. AGI may enter into foreign exchange contracts to partially mitigate its foreign exchange risk. AGI has no foreign exchange contracts outstanding as at September 30, 2019.

Interest Rate Swaps

The Company has entered into interest rate swap contracts to manage its exposure to fluctuations in interest rates.

	Currency	Maturity	Amount of Swap [000's] \$	Fixed Rate ^[1]
Canadian dollar contracts	CAD	2022	40,000	3.8%
U.S. dollar contracts	USD	2020	38,000	3.7%

[1] With performance adjustments.

The interest rate swap contracts are derivative financial instruments and changes in the fair value were recognized as a gain (loss) on financial instruments in other operating income. Through these

contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rates between 3.6% and 4.1%. The notional amounts are \$90.3 million in aggregate, resetting the last business day of each month. The contracts expire between November 2020 and May 2022.

During the three- and nine-month periods ended September 30, 2019, a loss of \$0.1 million and \$1.6 million [2018 – gain of \$1.1 million and \$1.9 million] was recorded in gain (loss) on financial instruments.

Equity Compensation hedge

The Company is party to an equity swap agreement with a financial institution to manage the Company's cash flow exposure due to fluctuations in its share price related to the EIAP. As at September 30, 2019, the equity swap agreement covered 722,000 Common Shares at a weighted average price of \$38.76 and the maturity date of the agreement is April 6, 2021.

As at September 30, 2019, the unrealized gain on the equity swap was \$4.2 million, and in the three- and nine-month periods ended September 30, 2019, the Company recorded a loss in the unaudited interim condensed consolidated statements of income of \$7.6 million and \$1.7 million [2018 – gain of \$4.5 million and \$5.7 million].

2018 ACQUISITIONS

Danmare

In February 2018, AGI acquired 100% of the shares of Danmare. Danmare provides engineering solutions and project management services to the food industry, with a specialization in automated systems for pet food, rice and pasta, confectionery, ready-to-eat foods, sauces and meat processing. Sales and adjusted EBITDA for Danmare in its fiscal year-ended August 2017 were \$6.4 million and \$1.7 million, respectively.

Sabe

In July 2018, AGI acquired 100% of the outstanding shares of 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. Sales and adjusted EBITDA for Sabe in its fiscal year-ended May 2018 were €16.4 million and €2.2 million, respectively.

2019 ACQUISITIONS

Improtech

In January 2019, AGI acquired 100% of the outstanding shares of 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.

IntelliFarms

In March 2019, AGI acquired IntelliFarms, 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. Sales at IntelliFarms for the year ended December 31, 2018 were approximately \$11.0 million USD.

Milltec

In March 2019, AGI acquired 100% of the outstanding shares of Milltec. The purchase price for Milltec was \$113.1 million, plus the potential for up to an additional \$30.8 million based on the achievement of EBITDA targets. Milltec is headquartered in Bangalore, India, and is a market leading manufacturer of rice milling and processing equipment in India. For the twelve months ended January 31, 2019, Milltec's sales and EBITDA were \$56.2 million and \$10.1 million, respectively.

RELATED PARTIES

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 nine-month period ended September 30, 2019, the total (recovery) cost of these legal services related to general matters was nil and \$244 [2018 – \$50 and \$582], and \$275 is included in accounts payable and accrued liabilities as at September 30, 2019.

Salthammer Inc. provides consulting services to the Company and a Director of AGI is the owner of Salthammer Inc. During the three- and nine-month period ended September 30, 2019, the total cost of these consulting services related to AGI's international plant expansion project was \$1 and \$1 [2018 – nil and \$80], and nil is included in accounts payable and accrued liabilities as at September 30, 2019.

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

CRITICAL ACCOUNTING ESTIMATES

Described in the notes to the Company's 2018 audited annual consolidated financial statements are the accounting policies and estimates that AGI believes are critical to its business. Please refer to note 4 to the audited consolidated financial statements for the year ended December 31, 2018 for a discussion of the significant accounting judgments, estimates and assumptions.

RISKS AND UNCERTAINTIES

The Company and its business are subject to numerous risks and uncertainties which are described in this MD&A and the Company's most recent Annual Information Form, which are available under the Company's profile on SEDAR [www.sedar.com]. These risks and uncertainties are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial also may impair operations. If any of these risks actually occur, our business, results of operations and financial condition, and the amount of cash available for dividends could be materially adversely affected.

CHANGES IN ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

New accounting policies

IAS 28, Investments in associates and joint ventures [“IAS 28”]

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

AGI's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The unaudited interim condensed consolidated statements of income (loss) reflects the Company's share of the results of operations of the associate. Any change in other comprehensive income [“OCI”] of those investees is presented as part of AGI's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the unaudited interim condensed consolidated statements of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between AGI and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company's share of profit or loss of an associate is shown on the face of the unaudited interim condensed consolidated statements of income (loss) and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of AGI.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within “Share of associate's net income (loss)” in the unaudited interim condensed consolidated statements of income (loss).

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Adoption of new accounting standards

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.

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 recognize right-of-uses assets 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 consolidated statements of financial position.

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.
- 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 September 30, 2019, there were no such amendments.

IFRIC 23 – Uncertainty Over Income Tax Treatments

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.

Standards issued but not yet effective

Amendments to 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including AGI's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management of AGI is responsible for designing internal controls over financial reporting for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Subsequent to September 30, 2018, AGI acquired Improtech, IntelliFarms and Milltec. See "Basis of Presentation - Acquisitions". Management has not completed its review of internal controls over financial reporting or disclosure controls and procedures for these acquired businesses. Since the acquisitions occurred within 365 days of the end of the reporting period, management has limited the scope of design, and subsequent evaluation, of disclosure controls and procedures and internal

controls over financial reporting to exclude controls, policies and procedures of these acquisitions, as permitted under Section 3.3 of National Instrument 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings*. For the period covered by this MD&A, management has undertaken specific procedures to satisfy itself with respect to the accuracy and completeness of the financial information of Improtech, IntelliFarms and Milltec. The following is the summary financial information pertaining to Improtech, IntelliFarms and Milltec that was included in AGI's consolidated financial statements for the nine-month period ended September 30, 2019:

[thousands of dollars]	Improtech/IntelliFarms/Milltec \$
Revenue ^[1]	34,452
Profit (loss) ^[1]	(10,298)
Current assets ^{[1][2]}	35,721
Non-current assets ^{[1][2]}	149,401
Current liabilities ^{[1][2]}	20,320
Non-current liabilities ^{[1][2]}	35,433

[1] Net of intercompany

[2] Statement of financial position as at September 30, 2019

There have been no material changes in AGI's internal controls over financial reporting that occurred in the three-month period ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

NON-IFRS MEASURES

In analyzing our results, we supplement our use of financial measures that are calculated and presented in accordance with IFRS with a number of non-IFRS financial measures including "trade sales", "EBITDA", "Adjusted EBITDA", "gross margin", "funds from operations", "payout ratio", "adjusted profit", and "diluted adjusted profit per share". A non-IFRS financial measure is a numerical measure of a company's historical performance, financial position or cash flow that excludes [includes] amounts, or is subject to adjustments that have the effect of excluding [including] amounts, that are included [excluded] in the most directly comparable measures calculated and presented in accordance with IFRS. Non-IFRS financial measures are not standardized; therefore, it may not be possible to compare these financial measures with other companies' non-IFRS financial measures having the same or similar businesses. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

We use these non-IFRS financial measures in addition to, and in conjunction with, results presented in accordance with IFRS. These non-IFRS financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our IFRS results and the accompanying reconciliations to corresponding IFRS financial measures, may provide a more complete understanding of factors and trends affecting our business.

In this MD&A, we discuss the non-IFRS financial measures, including the reasons that we believe that these measures provide useful information regarding our financial condition, results of operations, cash flows and financial position, as applicable, and, to the extent material, the additional purposes, if any, for which these measures are used. Reconciliations of non-IFRS financial measures to the most directly comparable IFRS financial measures are contained in this MD&A.

Management believes that the Company's financial results may provide a more complete understanding of factors and trends affecting our business and be more meaningful to management, investors, analysts and other interested parties when certain aspects of our financial results are adjusted for the gain (loss) on foreign exchange and other operating expenses and income. These measurements are non-IFRS measurements. Management uses the non-IFRS adjusted financial results and non-IFRS financial measures to measure and evaluate the performance of the business and when discussing results with the Board of Directors, analysts, investors, banks and other interested parties.

References to "EBITDA" are to profit before income taxes, finance costs, depreciation and amortization and share of associate's net loss. References to "adjusted EBITDA" are to EBITDA before the gain or loss on foreign exchange, non-cash share based compensation expenses, gain or loss on financial instruments, M&A expenses, other transaction and transitional costs, gain or loss on the sale of property, plant & equipment, gain or loss on disposal of assets held for sale and fair value of inventory from acquisitions, equipment rework costs and impairment. Management believes that, in addition to profit or loss, EBITDA and adjusted EBITDA are useful supplemental measures in evaluating the Company's performance. Management cautions investors that EBITDA and adjusted EBITDA should not replace profit or loss as indicators of performance, or cash flows from operating, investing, and financing activities as a measure of the Company's liquidity and cash flows. See "Operating Results - EBITDA and Adjusted EBITDA" for the reconciliation of EBITDA and Adjusted EBITDA to profit before income taxes.

References to "trade sales" are to sales net of the gain or loss on foreign exchange. Management cautions investors that trade sales should not replace sales as an indicator of performance. See "Operating Results - Trade Sales" for the reconciliation of trade sales to sales.

References to "gross margin" are to trade sales less cost of inventories, and thereby exclude depreciation, amortization, fair value of inventory from acquisitions and equipment rework from cost of sales. Management believes that gross margin provides a useful supplemental measure in evaluating its performance. See "Operating Results- Gross Margin" for the calculation of gross margin.

References to "funds from operations" are to adjusted EBITDA less IFRS 15 adjustment, interest expense, non-cash interest, cash taxes and maintenance capital expenditures. Management believes that, in addition to cash provided by (used in) operating activities, funds from operations provide a useful supplemental measure in evaluating its performance. References to "payout ratio" are to dividends declared as a percentage of funds from operations. See "Funds from Operations and Payout Ratio" for the calculation of funds from operations and payout ratio.

References to "adjusted profit" and "diluted adjusted profit per share" are to profit for the period and diluted profit per share for the period adjusted for the gain or loss on foreign exchange, fair value of inventory from acquisitions, M&A expenses or recoveries, other transaction and transitional costs, gain or loss on financial instruments, gain or loss on sale of property, plant and equipment impairment charges, cost of equipment rework and share of associate's net loss. See "Detailed Operating Results – Diluted profit (loss) per share and Diluted adjusted profit per share" for the reconciliation of diluted profit per share and diluted adjusted profit per share to profit.

In addition, the financial information in this MD&A relating to Milltec's sales and EBITDA for periods prior to its acquisition by AGI was derived from Milltec's financial statements, which are prepared in accordance with generally accepted accounting principles in India, which differ in some material respects from IFRS, and accordingly may not be comparable to the financial statements of AGI or other Canadian public companies.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements and information [collectively, "forward-looking information"] within the meaning of applicable securities laws that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. All information and statements contained herein that are not clearly historical in nature constitute forward-looking information, and the words "anticipate", "believe", "continue", "could", "expects", "intend", "plans", "postulates", "predict", "will" or similar expressions suggesting future conditions or events or the negative of these terms are generally intended to identify forward-looking information. Forward-looking information involves known or unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third party industry sources. Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. In particular, the forward-looking information in this MD&A includes information relating to our business and strategy, including our outlook for our financial and operating performance including our expectations for our future financial results including sales, EBITDA and adjusted EBITDA, industry demand and market conditions, and with respect to our ability to achieve the expected benefits of recent acquisitions and the contribution therefrom including from purchasing and personnel synergies and margin improvement initiatives. Such forward-looking information reflects our current beliefs and is based on information currently available to us, including certain key expectations and assumptions concerning: anticipated grain production in our market areas; financial performance; the financial and operating attributes of recently acquired businesses and the anticipated future performance thereof and contributions therefrom; business prospects; strategies; product and input pricing; regulatory developments; tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; political events; currency exchange and interest rates; the cost of materials; labour and services; the value of businesses and assets and liabilities assumed pursuant to recent acquisitions; the impact of competition; the general stability of the economic and regulatory environment in which the Company operates; the timely receipt of any required regulatory and third party approvals; the ability of the Company to obtain and retain qualified staff and services in a timely and cost efficient manner; the timing and payment of dividends; the ability of the Company to obtain financing on acceptable terms; the regulatory framework in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its products and services. Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking information, including changes in international, national and local macroeconomic and business conditions, as well as sociopolitical conditions in certain local or regional markets, weather patterns, crop planting, crop yields, crop conditions, the timing of harvest and conditions during harvest, the ability of management to execute the Company's business plan, seasonality, industry cyclicality, volatility of production costs, agricultural commodity prices, the cost and availability of capital, currency exchange and interest rates, the availability of credit for customers, competition, AGI's failure to achieve the expected benefits of recent acquisitions including to realize anticipated synergies and margin improvements; and changes in trade relations between the countries in which the Company does business including between Canada and the United States. These risks and uncertainties are described under "Risks and Uncertainties" in this MD&A, our annual MD&A and in our most recently filed Annual Information Form, all of which are available under the Company's profile on SEDAR [www.sedar.com]. These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking information. We cannot assure readers that actual results will be consistent with this forward-looking information. Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. These estimates may

change, having either a negative or positive effect on profit, as further information becomes available and as the economic environment changes. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information included in this MD&A is made as of the date of this MD&A and AGI undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

ADDITIONAL INFORMATION

Additional information relating to AGI, including AGI's most recent Annual Information Form, is available under the Company's profile on SEDAR [www.sedar.com].

Unaudited interim condensed consolidated financial statements

Ag Growth International Inc.

September 30, 2019

Ag Growth International Inc.

Unaudited interim condensed consolidated statements of financial position

[in thousands of Canadian dollars]

As at

	September 30, 2019	December 31, 2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	20,948	33,610
Cash held in trust and restricted cash	1,436	2,955
Accounts receivable <i>[note 6]</i>	192,406	134,239
Inventory	187,349	190,887
Prepaid expenses and other assets	34,397	26,031
Current portion of note receivable	89	85
Due from vendor	1,414	—
Current portion of derivative instruments <i>[notes 25[b] and [c]]</i>	—	185
Income taxes recoverable	3,346	4,344
	441,385	392,336
Non-current assets		
Property, plant and equipment, net <i>[note 7]</i>	360,458	332,645
Right-of-use assets, net <i>[note 8]</i>	9,795	—
Goodwill <i>[note 9]</i>	356,414	256,619
Intangible assets, net <i>[note 10]</i>	265,315	233,199
Investment in associate <i>[note 11[b]]</i>	18,931	—
Equity investment <i>[note 11[a]]</i>	—	900
Non-current accounts receivable <i>[note 6]</i>	8,309	8,122
Note receivable	520	650
Derivative instruments <i>[notes 25[b] and [c]]</i>	4,310	7,464
Deferred tax asset	27	455
	1,024,079	840,054
Assets held for sale <i>[note 12]</i>	1,040	1,169
Total assets	1,466,504	1,233,559
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 26]</i>	127,675	101,504
Customer deposits	38,214	47,941
Dividends payable	3,731	3,673
Income taxes payable	2,375	4,286
Current portion of due to vendor	8,368	7,973
Current portion of contingent consideration	—	4,552
Current portion of obligations under finance lease	—	65
Current portion of lease liability <i>[note 14]</i>	2,599	—
Current portion of long-term debt <i>[note 15]</i>	31,883	289
Current portion of convertible unsecured subordinated debentures <i>[note 16]</i>	—	50,708
Provisions <i>[note 13]</i>	15,625	7,685
	230,470	228,676
Non-current liabilities		
Other financial liabilities <i>[note 21]</i>	917	85
Due to vendor	4,409	1,376
Contingent consideration	5,221	1,834
Optionally convertible redeemable preferred shares <i>[note 5[e]]</i>	26,468	—
Obligations under finance lease	—	165
Lease liability <i>[note 14]</i>	7,153	—
Long-term debt <i>[note 15]</i>	403,243	271,132
Convertible unsecured subordinated debentures <i>[note 16]</i>	237,094	234,140
Senior unsecured subordinated debentures <i>[note 17]</i>	82,660	—
Deferred tax liability	72,986	61,952
	840,151	570,684
Total liabilities	1,070,621	799,360
Shareholders' equity <i>[note 18]</i>		
Common shares	455,628	450,645
Accumulated other comprehensive income	26,628	57,324
Equity component of convertible debentures	6,707	8,203
Contributed surplus	26,156	26,045
Deficit	(119,236)	(108,018)
Total shareholders' equity	395,883	434,199
Total liabilities and shareholders' equity	1,466,504	1,233,559

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert
Director

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

Ag Growth International Inc.

Unaudited interim condensed consolidated statements of income (loss)

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Sales <i>[note 27]</i>	260,198	242,166	767,171	715,987
Cost of goods sold <i>[note 20[d]]</i>	194,688	171,783	555,271	508,781
Gross profit	65,510	70,383	211,900	207,206
Expenses				
Selling, general and administrative <i>[note 20[e]]</i>	50,760	43,918	155,844	129,829
Other operating expense (income) <i>[note 20[a]]</i>	6,870	(7,841)	611	(9,810)
Impairment charge	46	—	46	232
Finance costs <i>[note 20[c]]</i>	11,626	10,883	33,464	28,099
Finance expense (income) <i>[note 20[b]]</i>	3,025	(3,415)	(5,744)	5,895
Share of associate's net loss <i>[note 11[b]]</i>	788	—	788	—
	73,115	43,545	185,009	154,245
Profit (loss) before income taxes	(7,605)	26,838	26,891	52,961
Income tax expense (recovery) <i>[note 22]</i>				
Current	3,225	5,814	8,089	10,912
Deferred	(8,011)	280	(4,117)	3,570
	(4,786)	6,094	3,972	14,482
Profit (loss) for the period	(2,819)	20,744	22,919	38,479
Profit (loss) per share <i>[note 23]</i>				
Basic	(0.15)	1.26	1.23	2.34
Diluted	(0.15)	1.14	1.21	2.25

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated
statements of comprehensive income (loss)

[in thousands of Canadian dollars]

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Profit (loss) for the period	(2,819)	20,744	22,919	38,479
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	—	(2,494)	—	(1,768)
Exchange differences on translation of foreign operations	(5,265)	(12,741)	(29,477)	(663)
Income tax effect on cash flow hedges	—	682	—	485
	(5,265)	(14,553)	(29,477)	(1,946)
Items that will not be reclassified to profit or loss				
Change in the fair value of equity investment <i>[note 11(a)]</i>	—	—	(900)	—
Actuarial loss (gain) on defined benefit plans	149	536	(437)	1,022
Income tax effect on defined plans	(40)	(146)	118	(278)
	109	390	(1,219)	744
Other comprehensive loss for the period	(5,156)	(14,163)	(30,696)	(1,202)
Total comprehensive income (loss) for the period	(7,975)	6,581	(7,777)	37,277

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2019

	Common shares	Equity component of convertible debentures	Contributed surplus	Deficit	Foreign currency reserve	Equity investment	Defined benefit plan reserve	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2019	450,645	8,203	26,045	(108,018)	57,417	—	(93)	434,199
Profit for the period	—	—	—	22,919	—	—	—	22,919
Other comprehensive loss	—	—	—	—	(29,477)	(900)	(319)	(30,696)
Share-based payment transactions <i>[notes 18[a] and 18[b]]</i>	4,958	—	(1,039)	—	—	—	—	3,919
Dividends paid to shareholders <i>[note 18[c]]</i>	—	—	—	(33,510)	—	—	—	(33,510)
Dividends on share-based compensation awards <i>[note 18[c]]</i>	—	—	—	(627)	—	—	—	(627)
Conversion of convertible unsecured subordinated debentures <i>[note 18[a]]</i>	25	—	—	—	—	—	—	25
Redemption of convertible unsecured subordinated debentures <i>[notes 16 and 18[b]]</i>	—	(1,496)	1,150	—	—	—	—	(346)
As at September 30, 2019	455,628	6,707	26,156	(119,236)	27,940	(900)	(412)	395,883

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated statement of changes in shareholders' equity

[in thousands of Canadian dollars]

Nine-month period ended September 30, 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 \$
As at January 1, 2018	323,199	9,903	20,956	(92,842)	1,283	28,618	(263)	290,854
Profit for the period	—	—	—	38,479	—	—	—	38,479
Other comprehensive income (loss)	—	—	—	—	(1,283)	(663)	744	(1,202)
Share-based payment transactions <i>[notes 18[a] and [b]]</i>	5,820	—	1,740	—	—	—	—	7,560
Dividend reinvestment plan <i>[note 18[c]]</i>	1,384	—	—	—	—	—	—	1,384
Dividends paid to shareholders <i>[note 18[c]]</i>	—	—	—	(29,633)	—	—	—	(29,633)
Dividends on share-based compensation awards <i>[note 18[c]]</i>	—	—	—	(899)	—	—	—	(899)
Issuance of convertible unsecured subordinated debentures	—	1,433	—	—	—	—	—	1,433
Conversion of convertible unsecured subordinated debentures	8,678	—	—	—	—	—	—	8,678
As at September 30, 2018	339,081	11,336	22,696	(84,895)	—	27,955	481	316,654

See accompanying notes

Ag Growth International Inc.

Unaudited interim condensed consolidated
statements of cash flows

[in thousands of Canadian dollars]

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Operating activities				
Profit (loss) before income taxes for the period	(7,605)	26,838	26,891	52,961
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	5,660	4,847	16,408	14,269
Depreciation of right-of-use assets	748	—	2,177	—
Amortization of intangible assets	6,913	3,462	17,681	9,964
Loss (gain) on sale of property, plant and equipment	124	(71)	124	145
Gain on redemption of convertible debentures	—	—	(55)	—
Impairment charge	46	—	46	232
Share of loss of an associate	788	—	788	—
Non-cash component of interest expense	1,320	3,229	4,417	5,042
Non-cash movement in derivative instruments	7,592	(7,256)	3,350	(8,501)
Non-cash investment tax credits	(162)	—	(162)	—
Share-based compensation expense	1,388	2,311	4,642	6,985
Employer contribution to defined benefit plans	(10)	—	(27)	(4)
Defined benefit plan expense	32	34	97	102
Contingent consideration	(233)	101	4,783	1,049
Equipment provided to vendor	—	—	—	(115)
Non-cash transaction costs	—	886	—	2,246
Translation loss (gain) on foreign exchange	1,500	(7,170)	(13,090)	5,857
	18,101	27,211	68,070	90,232
Net change in non-cash working capital				
balances related to operations <i>[note 24(a)]</i>	27,147	(12,688)	(40,405)	(52,595)
Non-current accounts receivable	42	(1,345)	(187)	(883)
Long-term payables	—	—	—	(135)
Settlement of EIAP obligation	(296)	57	(2,461)	(1,953)
Income taxes paid	(5,114)	(2,096)	(8,084)	(6,219)
Cash provided by operating activities	39,880	11,139	16,933	28,447
Investing activities				
Acquisition of property, plant and equipment	(15,739)	(8,970)	(36,850)	(25,203)
Acquisitions, net of cash acquired <i>[note 5]</i>	—	(19,724)	(112,619)	(46,067)
Investment in associate	(19,720)	—	(19,720)	—
Transfer from restricted cash	—	1,441	827	884
Proceeds from sale of property, plant and equipment	267	476	715	813
Proceeds from sale of assets held for sale	—	—	—	2,031
Development and purchase of intangible assets	(2,215)	(2,033)	(8,207)	(4,710)
Transaction costs paid and payable	(10,274)	(983)	(21,884)	1,746
Cash used in investing activities	(47,681)	(29,793)	(197,738)	(70,506)
Financing activities				
Issuance of long-term debt, net of issuance costs	29,803	50,000	168,350	50,000
Repayment of long-term debt	(161)	(243)	(458)	(330)
Change in obligation under finance lease	—	38	—	38
Repayment of obligations under finance lease	—	(101)	—	(1,045)
Repayment of obligation under lease liabilities	(642)	—	(1,895)	—
Change in interest accrued	(3,144)	3,630	4,744	(3,900)
Issuance of senior unsecured subordinated debentures, net of issuance costs <i>[note 17]</i>	—	—	82,640	82,293
Redemption of convertible unsecured subordinated debentures	—	—	(51,786)	(77,477)
Dividends paid in cash <i>[note 18(c)]</i>	(11,192)	(9,891)	(33,452)	(28,249)
Cash provided by financing activities	14,664	43,433	168,143	21,330
Net increase (decrease) in cash during the period	6,863	24,779	(12,662)	(20,729)
Cash and cash equivalents, beginning of period	14,085	18,473	33,610	63,981
Cash and cash equivalents, end of period	20,948	43,252	20,948	43,252
Supplemental cash flow information				
Interest paid	13,552	2,832	23,185	22,906

See accompanying notes

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 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 nine-month periods ended September 30, 2019, were authorized for issuance in accordance with a resolution of the directors on November 13, 2019.

[b] Basis of preparation

These 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.

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]

September 30, 2019

IAS 28, *Investments in associates and joint ventures* ["IAS 28"]

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

AGI's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The unaudited interim condensed consolidated statements of income (loss) reflects the Company's share of the results of operations of the associate. Any change in other comprehensive income ["OCI"] of those investees is presented as part of AGI's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the unaudited interim condensed consolidated statements of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between AGI and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company's share of profit or loss of an associate is shown on the face of the unaudited interim condensed consolidated statements of income (loss) and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of AGI.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within "Share of associate's net income (loss)" in the unaudited interim condensed consolidated statements of income (loss).

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

[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 that the Company reasonably expects to be applicable at a future date is listed below. The Company intends to adopt this standard when it becomes effective.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

Amendments to 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, *Leases*, ["IAS 17"] and IFRIC 4, *Determining whether an Arrangement contains a Lease* ["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.

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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

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]

September 30, 2019

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

	\$
Operating lease commitments as at December 31, 2018	11,059
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)
Lease liabilities as at January 1, 2019	9,071

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 (loss).

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 (loss) 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

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

September 30, 2019

- 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 September 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 cash is typically highest in the first and second quarters and begins to decline in the third quarter as collections of accounts receivable increase.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 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, "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	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 nine-month periods ended September 30, 2019, \$218 and \$656 were expensed, of which \$1,050 was paid during the nine-month period ended September 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]

September 30, 2019

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

	<u>\$</u>
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:

	<u>\$</u>
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 nine-month period ended September 30, 2019, \$1,050 of post-combination expense was paid to the vendor.

Transaction costs related to the Danmare acquisition in the three- and nine-month periods ended September 30, 2019 were nil and \$40 [2018 – \$11 and \$154] 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]

September 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	<u>30,981</u>
Post-combination expense	(4,436)
Purchase consideration	<u>26,545</u>

The \$4.4 million of post-combination expense is expected to be expensed over the three-year period. During the three- and nine-month periods ended September 30, 2019, \$281 and \$1,614 [2018 – \$668 and \$668] related to certain terms of the purchase agreement was expensed, of which \$1,430 was paid during the three-month period ended September 30, 2019. In the three-month period ended September 30, 2019, the earn-out period expired, and the earnings target was not met. As a result, the contingent consideration of \$2.7 million was derecognized and a gain was recorded in transaction costs in the unaudited interim condensed consolidated statements of income (loss).

The purchase has been accounted for by the acquisition method, with the results of Sabe 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]

September 30, 2019

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

	<u>\$</u>
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 nine-month period ended September 30, 2019.

The components of the purchase consideration are as follows:

	<u>\$</u>
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]

September 30, 2019

Transaction costs related to the Sabe acquisition in the three- and nine-month periods ended September 30, 2019, were nil and \$208 [2018 – \$297 and \$615] and are included in selling, general and administrative expenses. During the nine-month period ended September 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	<u>4,041</u>
Post-combination expense	<u>(2,000)</u>
Purchase consideration	<u>2,041</u>

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 nine-month periods ended September 30, 2019, \$305 and \$917 [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 Company’s 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 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]

September 30, 2019

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

	<u>\$</u>
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 \$1,320 of revenue and \$975 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:

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

During the nine-month period ended September 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]

September 30, 2019

Transaction (recovery) costs related to the Improtech acquisition in the three- and nine-month periods ended September 30, 2019, were \$(4) and \$107 [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	87
Contingent consideration	5,105
Customer deposits	(1,566)
Total purchase price	<u>23,029</u>
Post-combination expense	(7,340)
Purchase consideration	<u>15,689</u>

The \$7.3 million of post-combination expense is expected to be expensed over a three-year period, contingent on certain conditions. During the three- and nine-month periods ended September 30, 2019, \$907 and \$2,133 [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 Company’s 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]

September 30, 2019

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

	<u>\$</u>
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	13,507
Accounts payable and accrued liabilities	(3,112)
Customer deposits	(2,740)
Lease liability	(65)
Long-term debt	(464)
Purchase consideration	<u>15,689</u>

The goodwill of \$13,507 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further information regarding inventory and working capital existing at acquisition was identified, resulting in a \$36 decrease in inventory and a \$218 increase in working capital purchase consideration with an offsetting increase in goodwill in the nine-month period ended September 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 \$9,676 of revenue and \$3,900 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 are 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]

September 30, 2019

The components of the purchase consideration are as follows:

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

Transaction costs related to the IntelliFarms acquisition in the three- and nine-month periods ended September 30, 2019, were \$3 and \$162 [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 Company’s 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]

September 30, 2019

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

	<u>\$</u>
Cash	6,746
Restricted cash	1,425
Accounts receivable	11,796
Inventory	8,809
Prepaid expenses and other assets	4,489
Income taxes recoverable	87
Property, plant and equipment	20,456
Intangible assets	
Trade name	12,764
Customer relationships	23,599
Customer backlog	3,835
Goodwill	93,329
Accounts payable and accrued liabilities	(16,347)
Other liabilities	(172)
Customer deposits	(2,533)
Deferred tax liability	(16,725)
Long-term payables	(290)
Purchase consideration	<u>151,268</u>

The goodwill of \$93,329 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 intangible assets increased by \$197. In addition, the fair value of property, plant, and equipment acquired increased by \$129, income taxes recoverable decreased by \$240, and deferred tax liability increased by \$13,488. All other adjustments net to \$60. These changes resulted in an overall increase of \$13,691 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 \$23,456 of revenue and \$2,270 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 are 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]

September 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 nine-month periods ended September 30, 2019, were \$76 and \$2,096 [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]

September 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:

	September 30, 2019	December 31, 2018
	\$	\$
Total accounts receivable	193,947	135,770
Less allowance for doubtful accounts	(1,541)	(1,531)
	<u>192,406</u>	<u>134,239</u>
Non-current accounts receivable	8,309	8,122
Total accounts receivable, net	<u>200,715</u>	<u>142,361</u>
Of which		
Neither impaired nor past due	154,492	110,469
Not impaired and past the due date as follows		
Within 30 days	19,961	14,858
31 to 60 days	5,904	4,167
61 to 90 days	8,732	3,922
Over 90 days	13,167	10,476
Less allowance for doubtful accounts	(1,541)	(1,531)
Total accounts receivable, net	<u>200,715</u>	<u>142,361</u>

7. Property, plant and equipment

	September 30, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	332,645	304,543
Additions	36,850	36,549
Acquisitions <i>[note 5]</i>	21,276	4,470
Disposals	(839)	(1,145)
Classification as held for sale <i>[note 12]</i>	—	(786)
Transfer to right-of-use assets	(280)	—
Depreciation	(16,408)	(19,200)
Impairment	—	(226)
Exchange differences	(12,786)	8,440
Balance, end of period	<u>360,458</u>	<u>332,645</u>

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

8. Right-of-use assets

	September 30, 2019
	\$
Balance, beginning of period¹	9,071
Acquisitions <i>[note 5]</i>	420
Additions	2,587
Depreciation	(2,177)
Exchange differences	(106)
Balance, end of period	9,795

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

9. Goodwill

	September 30, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	256,619	234,669
Acquisitions <i>[note 5]</i>	108,489	16,423
Exchange differences	(8,694)	5,527
Balance, end of period	356,414	256,619

10. Intangible assets

	September 30, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	233,199	218,156
Internal development	8,207	7,397
Acquisitions <i>[note 5]</i>	46,564	15,994
Amortization	(17,681)	(13,831)
Exchange differences	(4,974)	5,483
Balance, end of period	265,315	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]

September 30, 2019

11. Equity investments

[a] Equity investment at fair value through OCI

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 OCI, which represented the remaining value of Investco.

[b] Investment in associate

On July 16, 2019, the Company acquired an equity interest in Farmobile Inc. [“Farmobile”] for \$15 million USD. Farmobile, headquartered in Leawood, Kansas, is a privately-held agriculture technology company. AGI has the right to appoint two of the seven 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.

The equity interest acquired in Farmobile represents an investment subject to significant influence that is accounted for using the equity method from the date of acquisition. The investment was initially recorded at cost and adjustments were made to include the Company’s share of Farmobile’s net loss. The Company’s share of net loss since acquisition of \$788 has been recorded in the unaudited interim condensed consolidated statements of income (loss).

12. Assets held for sale

Assets held for sale include a building in Illinois and land, grounds, and building in Brazil. During the three- and nine-month periods ended September 30, 2019, the Company recorded impairment losses totaling \$46 and \$46. As at September 30, 2019, the carrying amount of the assets held for sale is \$1,040.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

13. Provisions

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

	September 30, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	7,685	5,909
Additional provisions recognized	14,017	7,907
Amounts written off	(7,832)	(6,244)
Acquisitions	1,755	113
Balance, end of period	15,625	7,685

14. Lease liability

	Incremental borrowing rate %	Maturity	September 30, 2019 \$
Current	2.7 – 13.1	2020	2,599
Non-current	2.7 – 13.1	2020 – 2029	7,153
Lease liability			9,752

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

15. Long-term debt

	Interest rate %	Maturity	September 30, 2019 \$	December 31, 2018 \$
Current portion of long-term debt				
Canadian swing line	3.7 – 6.8	2023	31,522	—
Equipment financing	nil	2025	361	289
			31,883	289
Non-current portion of long-term debt				
Equipment financing	nil	2025	865	809
Series B secured notes	4.4	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	33,108	34,105
Canadian Revolver	4.1 – 6.9	2023	146,859	69,203
U.S. Revolver	4.0 – 4.3	2023	200,234	144,877
			406,066	273,994
Less deferred financing costs			(2,823)	(2,862)
			403,243	271,132
Long-term debt			435,126	271,421

[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 September 30, 2019, there was \$31,522 [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 nine-month periods ended September 30, 2019 on AGI's revolver facilities was 5.31%. As at September 30, 2019, there was \$347 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 25[b]]. Collateral for the revolving line ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 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 includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

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

[c] Covenants

AGI is subject to certain financial covenants in its credit facility agreements that must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require AGI to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 3.25, 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 September 30, 2019 and December 31, 2018, AGI was in compliance with all financial covenants.

16. Convertible unsecured subordinated debentures

	September 30, 2019	December 31, 2018
	\$	\$
Current portion of convertible unsecured subordinated debentures	<u>—</u>	<u>50,708</u>
Non-current portion of convertible unsecured subordinated debentures		
Principal amount	247,475	247,500
Equity component	(9,629)	(9,629)
Accretion	4,927	3,536
Financing fees, net of amortization	(5,679)	(7,267)
	<u>237,094</u>	<u>234,140</u>
Convertible unsecured subordinated debentures	<u>237,094</u>	<u>284,848</u>

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]

September 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 nine-month period ended September 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 (loss). 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.

17. 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, were 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.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

18. Shareholders' equity

[a] Common shares

	Shares #	Amount \$
Balance, January 1, 2018	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
Balance, December 31, 2018	18,363,780	450,645
Settlement of EIAP obligation	291,421	4,958
Convertible unsecured subordinated debentures	299	25
Balance, September 30, 2019	18,655,500	455,628

[b] Contributed surplus

	September 30, 2019 \$	December 31, 2018 \$
Balance, beginning of period	26,045	20,956
Equity-settled director compensation <i>[note 19[b]]</i>	365	419
Dividends on EIAP	627	1,144
Obligation under EIAP <i>[note 19[a]]</i>	4,334	8,135
Settlement of EIAP obligation	(6,365)	(7,742)
Convertible unsecured subordinated debentures	1,150	3,133
Balance, end of period	26,156	26,045

[c] Dividends paid and proposed

In the three-month period ended September 30, 2019, the Company declared dividends of \$11,193 or \$0.60 per common share [2018 – \$9,891 or \$0.60 per common share] and dividends on share compensation awards of \$340 [2018 – \$312]. In the nine-month period ended September 30, 2019, the Company declared dividends of \$33,510 or \$1.80 per common share [2018 – \$29,633 or \$1.80 per common share] and dividends on share compensation awards of \$627 [2018 – \$899].

In the three-month period ended September 30, 2019, dividends paid to shareholders of \$11,192 [2018 – \$9,891] were financed from cash on hand and nil [2018 – nil] by the dividend reinvestment plan [the "DRIP"]. In the nine-month period ended September 30, 2019, dividends paid to shareholders were financed \$33,452 [2018 – \$28,249] from cash on hand and nil [2018 – \$1,384] by the DRIP.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

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 September 30, 2019, the Company declared dividends of \$0.20 per common share on October 30, 2019.

19. Share-based compensation plans

[a] EIAP

During the three-month period ended September 30, 2019, 11,250 [2018 – nil] Restricted Awards ["RSU"] and 3,494 [2018 – nil] Performance Awards were granted. As at September 30, 2019, a total of 559,691 [December 31, 2018 – 406,006] Restricted Awards and 658,791 [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 nine-month periods ended September 30, 2019, AGI expensed \$1,259 and \$4,277 for the EIAP [2018 – \$2,209 and \$6,682].

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

	EIAP	
	Restricted Awards	Performance Awards
	#	#
Outstanding, January 1, 2018	156,479	213,175
Granted	68,585	33,883
Vested	(70,918)	(73,281)
Forfeited	(15,166)	(17,000)
Balance, December 31, 2018	138,980	156,777
Granted	153,685	218,119
Vested	(44,343)	(247,151)
Forfeited	(7,000)	—
Balance, September 30, 2019	241,322	127,745

There is no exercise price on the EIAP awards.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

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

For the three- and nine-month periods ended September 30, 2019, an expense of \$129 and \$365 [2018 – \$102 and \$303] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 120,000, subject to adjustment in lieu of dividends, if applicable. For the three- and nine-month periods ended September 30, 2019, 2,923 and 6,983 [2018 – 1,644 and 5,297] common shares were granted under the DDCP. As at September 30, 2019, a total of 85,136 [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

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

September 30, 2019

20. Other expenses (income)

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
[a] Other operating expense (income)				
Loss (gain) on sale of property, plant and equipment	124	(71)	124	145
Loss on financial instruments	7,592	(7,256)	3,060	(8,501)
Other	(846)	(514)	(2,573)	(1,454)
	6,870	(7,841)	611	(9,810)
[b] Finance expense (income)				
Interest income from banks	(45)	(48)	(158)	(145)
Loss (gain) on foreign exchange	3,070	(3,367)	(5,586)	6,040
	3,025	(3,415)	(5,744)	5,895
[c] Finance costs				
Interest on overdrafts and other finance costs	500	278	1,032	497
Interest on lease liabilities	89	—	249	—
Interest, including non-cash interest, on debts and borrowings	5,795	5,788	15,544	13,089
Interest, including non-cash interest, on senior and convertible unsecured subordinated debentures <i>[notes 16 and 17]</i>	5,242	4,817	16,639	14,513
	11,626	10,883	33,464	28,099
[d] Cost of goods sold				
Depreciation of property, plant and equipment	5,106	4,402	14,838	13,009
Depreciation of right-of-use assets	306	—	869	—
Amortization of intangible assets	2,440	612	5,432	1,823
Warranty provision <i>[note 13]</i>	6,638	17	6,185	254
Cost of inventory recognized as an expense	180,198	166,752	527,947	493,695
	194,688	171,783	555,271	508,781
[e] Selling, general and administrative expenses				
Depreciation of property, plant and equipment	554	445	1,570	1,260
Depreciation of right-of-use assets	442	—	1,308	—
Amortization of intangible assets	4,473	2,850	12,249	8,141
Minimum lease payments recognized as lease expense	82	871	399	2,670
Transaction costs	283	1,633	9,473	4,924
Selling, general and administrative	44,926	38,119	130,845	112,834
	50,760	43,918	155,844	129,829
[f] Employee benefits expense				
Wages and salaries	64,976	61,871	188,170	172,791
Share-based payment expense <i>[notes 19[a] and [b]]</i>	1,388	2,311	4,642	6,985
Pension costs	1,713	1,241	4,946	3,791
	68,077	65,423	197,758	183,567
Included in cost of goods sold	43,608	36,406	126,303	113,146
Included in selling, general and administrative expenses	24,469	29,017	71,455	70,421
	68,077	65,423	197,758	183,567

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

21. Retirement benefit plans

During the three- and nine-month periods ended September 30, 2019, the expense associated with the Company's defined pension benefit was \$32 and \$97 [2018 – \$34 and \$102]. At September 30, 2019, the accrued pension benefit liability was \$592 [December 31, 2018 – \$85], which is included in other financial liabilities on the unaudited interim condensed consolidated statements of financial position.

22. Income taxes

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Profit (loss) before income taxes	(7,605)	26,838	26,891	52,961
Tax expense (recovery) at the statutory rate of 27% [2018 – 27%]	(2,053)	7,246	7,261	14,299
Tax rate changes	(3,357)	253	(3,236)	481
Additional deductions allowed in a foreign jurisdiction	(269)	—	(269)	—
Tax losses not recognized as a deferred tax asset	177	539	1,394	1,884
Foreign rate differential	(153)	(967)	(1,697)	(2,426)
Non-deductible EIAP expense	48	86	122	183
State income taxes, net of federal tax benefit	139	442	560	961
Unrealized foreign exchange loss (gain)	742	(846)	(1,290)	1,551
IFRS 15 transition adjustment	—	—	—	(414)
Change in uncertain tax position	—	—	—	(2,305)
Permanent differences and others	(60)	(659)	1,127	268
Tax expense (recovery) at the effective rate of 14.8% [2018 – 27.3%]	(4,786)	6,094	3,972	14,482

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

23. Profit (loss) per share

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Net profit (loss)	(2,819)	20,744	22,919	38,479
Dilutive effect of 2018 convertible debenture interest	—	904	—	2,699
Dilutive effect of 2015 convertible debenture interest	—	917	—	2,742
Dilutive effect of 2014 convertible debenture interest	—	676	—	—
Dilutive effect of 2017 convertible debenture interest	—	1,023	—	—
Net profit (loss) attributable to shareholders for basic and diluted profit per share	(2,819)	24,264	22,919	43,920
Basic weighted average number of shares	18,653,281	16,484,196	18,598,530	16,453,098
Dilutive effect of DDCP	—	55,567	61,753	53,795
Dilutive effect of RSU	—	157,374	225,562	170,421
Dilutive effect of 2018 convertible debentures	—	1,568,180	—	1,568,180
Dilutive effect of 2015 convertible debentures	—	1,250,000	—	1,250,000
Dilutive effect of 2014 convertible debentures	—	789,234	—	—
Dilutive effect of 2017 convertible debentures	—	1,033,551	—	—
Diluted weighted average number of shares	18,653,281	21,338,102	18,885,845	19,495,494
Profit (loss) per share				
Basic	(0.15)	1.26	1.23	2.34
Diluted	(0.15)	1.14	1.21	2.25

The 2015, 2017 and 2018 Debentures were excluded from the calculation of diluted profit (loss) per share in the three-and nine-month periods ended September 30, 2019, because their effect is anti-dilutive. The DDCP and RSU were excluded from the calculation of the diluted loss per share in the three-month period ended September 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]

September 30, 2019

24. Statement of cash flows

[a] Net change in non-cash working capital

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

	Three-month period ended		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Accounts receivable	8,037	14,754	(44,724)	(33,328)
Inventory	9,566	(6,797)	12,315	(27,295)
Prepaid expenses and other assets	1,529	(3,140)	(1,944)	(6,436)
Accounts payable and accrued liabilities	(465)	(9,425)	1,435	15,339
Customer deposits	1,995	(8,097)	(15,248)	(1,129)
Provisions	6,485	17	7,761	254
	27,147	(12,688)	(40,405)	(52,595)

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

[b] Reconciliation of liabilities arising from financing activities

	December 31, 2018	Cash flows	Non-cash changes						September 30, 2019	
			Acquisitions	Conversion	Foreign exchange	Accretion	Amortization	Fair value		Other
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Long-term debt	271,421	167,892	464	—	(5,586)	—	401	534	—	435,126
Convertible unsecured subordinated debentures	284,848	(51,786)	—	(25)	—	1,509	2,150	—	398	237,094
Senior unsecured subordinated debentures	—	82,640	—	—	—	—	357	—	(337)	82,660
Lease liability	8,791	(1,895)	196	—	(157)	—	—	—	2,817	9,752
Total liabilities from financing activities	565,060	196,851	660	(25)	(5,743)	1,509	2,908	534	2,878	764,632

	December 31, 2017	Cash flows	Non-cash changes						September 30, 2018	
			Acquisitions	Conversion	Foreign exchange	Accretion	Amortization	Fair value		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Long-term debt	302,802	49,670	738	—	6,040	—	1,709	—	—	360,959
Convertible unsecured subordinated debentures	286,058	4,816	—	(8,678)	—	1,641	1,867	(2,063)	—	283,641
Obligations under finance lease	1,002	(1,007)	—	—	89	—	—	—	—	84
Derivatives held to hedge long-term borrowings	(1,768)	—	—	—	—	—	—	(1,017)	—	(2,785)
Total liabilities from financing activities	588,094	53,479	738	(8,678)	6,129	1,641	3,576	(3,080)	—	641,899

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

25. Financial instruments and financial risk management

[a] Foreign exchange contracts

To mitigate exposure to the fluctuating rate of exchange, AGI may enter into foreign exchange forward contracts and denominate a portion of its debt in U.S. dollars. As at September 30, 2019, AGI's U.S. dollar denominated debt totaled \$197 million.

During the nine-month period ended September 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 September 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 4.1%. The notional amounts are \$90,323 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 OCI to the extent that they have 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 nine-month periods ended September 30, 2019, a loss of \$25 and \$1,637 [2018 – gain of \$1,060 and \$1,874] was recorded in gain (loss) on financial instruments. As at September 30, 2019, the unrealized gain on the interest rate swap was \$52.

[c] Equity swap

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

As at September 30, 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.

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

As at September 30, 2019, the unrealized gain on the equity swap was \$4,258, and in the three- and nine-month periods ended September 30, 2019, the Company recorded in other operating expense (income) a loss of \$7,567 and loss of \$1,713 [2018 – gain of \$4,471 and \$5,716].

[d] Fair value

The fair value of cash and cash equivalents, cash held in trust and restricted cash, accounts receivable, accounts payable and accrued liabilities, 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:

	Level	September 30, 2019		December 31, 2018	
		Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets					
<i>Amortized cost:</i>					
Cash and cash equivalents	1	20,948	20,948	33,610	33,610
Cash held in trust and restricted cash	1	1,436	1,436	2,955	2,955
Accounts receivable	2	192,406	192,406	134,239	134,239
Note receivable	2	609	609	735	735
<i>Fair value through profit or loss:</i>					
Derivative instruments	2	4,310	4,310	7,649	7,649
<i>Fair value through OCI:</i>					
Equity investment	3	—	—	900	900
Financial liabilities					
<i>Amortized cost:</i>					
Interest-bearing loans and borrowings	2	444,878	445,515	271,651	269,685
Accounts payable and accrued liabilities	2	127,675	127,675	101,504	101,504
Dividends payable	2	3,731	3,731	3,673	3,673
Due to vendor	2	12,777	12,777	9,349	9,349
Contingent consideration	3	5,221	5,221	6,386	6,386
Convertible unsecured subordinated debentures	2	237,094	236,406	284,848	305,935
Senior unsecured subordinated debentures	2	82,660	82,122	—	—
<i>Fair value through profit or loss:</i>					
Optionally convertible redeemable preferred shares	3	26,468	26,468	—	—

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

During the nine-month period and year ended September 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 that 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:

	September 30, 2019	December 31, 2018
	\$	\$
Contingent consideration and OCRPS:		
Balance, beginning of period	6,386	9,037
Acquisitions	31,599	2,708
Fair value change	(592)	1,187
Reclassification to due to vendor	(4,000)	(6,849)
Exchange differences	(1,704)	303
Balance, end of period	31,689	6,386

Ag Growth International Inc.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

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

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Contingent consideration and OCRPS	Discounted cash flow method	• Probability of achieving earnings target	0%–100% achievement	Increase (decrease) in the probability would increase (decrease) the fair value
		• Weighted average cost of capital ["WACC"]	5%–9.2%	Increase (decrease) in the WACC would result in decrease (increase) in fair value

26. Related party disclosures

Burnet, Duckworth & Palmer LLP provides legal services to the Company, and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. During the three- and nine-month periods ended September 30, 2019, the total cost of these legal services related to general matters was nil and \$244 [2018 – \$50 and \$582], and \$275 is included in accounts payable and accrued liabilities as at September 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 nine-month periods ended September 30, 2019, the total cost of these consulting services related to AGI's international plant expansion project was \$1 and \$1 [2018 – nil and \$80], and nil is included in accounts payable and accrued liabilities as at September 30, 2019.

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

27. Reportable business segment

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

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

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		Nine-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Canada	78,796	77,899	264,630	254,141
United States	117,548	116,025	325,811	301,119
International	63,854	48,242	176,730	160,727
	260,198	242,166	767,171	715,987

The sales information above is based on the location of the customer. The Company has no single customer that represents 10% or more of the Company's sales.

28. Commitments and contingencies

[a] Contractual commitment for the purchase of property, plant and equipment

As of the reporting date, the Company has commitments to purchase property, plant and equipment of \$8,126 [December 31, 2018 – \$9,308].

[b] Letters of credit

As at September 30, 2019, the Company has outstanding letters of credit in the amount of \$12,890 [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.

Notes to unaudited interim condensed consolidated financial statements

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

September 30, 2019

29. Subsequent event

On October 30, 2019, the Company announced the issuance of \$75 million aggregate principal amount of senior subordinated unsecured debentures [the "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 November 19, 2019. The Offering is subject to normal regulatory approvals, including approval of the Toronto Stock Exchange.

AGI intends to redeem in full the Company's 5.00% Convertible Unsecured Debentures due December 31, 2020 [the "2015 Debentures"]. The Company intends to provide a formal notice of redemption to the holders of 2015 Debentures in accordance with the terms of the indenture governing the 2015 Debentures. The net proceeds of the Offering will initially be used to repay a portion of the Company's revolving bank debt which will then be redrawn to fund the redemption of the outstanding 2015.

The Debentures will bear interest from the date of issue at 5.25% per annum, payable semi-annually in arrears on June 30 and December 31 each year commencing June 30, 2020. The Debentures will have a maturity date of December 31, 2024.

The Debentures will not be redeemable by the Company before December 31, 2022, except upon the occurrence of a change of control of the Company in accordance with the terms of the indenture [the "Indenture"] governing the Debentures. On and after December 31, 2022 and prior to December 31, 2023, the Debentures may be redeemed at the Company's option at a price equal to 102.625% of their principal amount plus accrued and unpaid interest. On or after December 31, 2023, the 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 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.