

**AG GROWTH INTERNATIONAL INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Dated: August 9, 2018**

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, 2017, the Management Discussion and Analysis (the “Annual MD&A”) of the Company for the year ended December 31, 2017 and the unaudited interim condensed consolidated comparative financial statements of the Company and accompanying notes for the three and six month periods ended June 30, 2018.

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, the 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](http://www.sedar.com)).

**SUMMARY OF RESULTS**

(thousands of dollars except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade sales <sup>(1)(2)(4)</sup>	262,651	222,241	476,748	376,930
Adjusted EBITDA <sup>(1)(3)(4)</sup>	49,220	40,099	79,947	66,001
Profit	12,792	14,749	17,735	19,876
Diluted profit per share	\$0.75	\$0.88	\$1.06	\$1.22
Adjusted profit <sup>(1)</sup>	22,282	13,903	33,745	21,614
Diluted adjusted profit per share <sup>(1)(5)</sup>	\$1.21	\$0.84	\$1.91	\$1.33

(1) See “Non-IFRS Measures”.

(2) See “Operating Results – Trade Sales”.

(3) See “Operating Results - EBITDA and Adjusted EBITDA”.

(4) The Company adopted IFRS 15 in 2018 without retrospective application and as a result in Q1 2018 recorded sales and adjusted EBITDA of \$4.4 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 2017 figures in the above table and elsewhere in this MD&A.

(5) See “Detailed Operating Results - Diluted profit per share and diluted adjusted profit per share”.

Trade sales and adjusted EBITDA were at record levels in both the three and six-month periods ended June 30, 2018 due to continued momentum in international sales, a robust Canadian Commercial market and strong portable grain handling sales in the U.S. Excluding acquisitions, international sales increased 44% compared to the prior year, easily surpassing record highs due to continued strength in EMEA and higher sales in Brazil. Commercial activity in the Canadian

fertilizer and grain segments remains very high due to the evolution of fertilizer distribution and expansion of the Canadian grain handling infrastructure. In the United States, prospects of another large crop and pent up demand have resulted in recovering sales of portable grain handling equipment. Adjusted EBITDA as a percentage of sales in Q2 increased to 18.7%, up significantly compared to Q1 2018 due to higher sales volumes, sales mix and a narrowing of the operating loss in Brazil. Higher adjusted EBITDA was offset by a translation loss on foreign exchange, resulting in lower profit and profit per share, while adjusted profit and adjusted profit per share increased significantly compared to 2017.

## **BASIS OF PRESENTATION - ACQUISITIONS**

When comparing current year results to 2017, we have in some cases noted the impact of acquisitions made in 2017 and 2018. When noted, both the 2017 and 2018 periods exclude results from the acquisitions of Global Industries, Inc. ("Global") (April 4, 2017), CMC Industrial Electronics Ltd. and CMC Industrial Electronics USA, Inc. (collectively, "CMC") (December 22, 2017), Junge Control, Inc. ("Junge") (December 28, 2017) and Danmare Group Inc. and its affiliate Danmare, Inc. (collectively, "Danmare") (February 22, 2018).

In the disclosure that follows, CMC, Junge and Danmare are categorized as Commercial divisions. Three of the four operating divisions of Global are categorized as Farm divisions – MFS, York and Brownie (collectively, "MFS") (storage bins, stationary grain handling equipment, and structural components), Hutchinson and Mayrath ("Hutch") (portable and stationary grain handling equipment) and NECO (grain dryers and aeration equipment). Sentinel Building Systems (steel buildings) is categorized as a Commercial division.

### **Subsequent Event – Acquisition**

On July 26, 2018, AGI announced the acquisition of the Sabe group of companies (collectively, "Sabe"), a provider of processing solutions to the food, pet food, animal feed, fertilizer and biomass industries. Based in Chauché, France, Sabe's sales and adjusted EBITDA in its most recently completed fiscal year were approximately €16.4 million and €2.5 million, respectively. Sabe serves a global client base and has a turnkey approach that typically involves engineering, project management, manufacturing of equipment, and installation. Sabe joins Mitchell Mill Systems and Danmare as recent additions to AGI's growing Food platform.

## **OUTLOOK**

Crop conditions in North America are generally very positive and recent reports from both the USDA and Statistics Canada are supportive of market expectations of a large North American crop, particularly in the U.S. Demand for portable grain handling equipment in the U.S. remains very high due to underinvestment in recent years and the expectation of a favourable harvest in 2018. Order backlogs in the U.S. for both portable grain handling equipment and grain storage systems remain strong. Farm demand in Canada is stable and consistent with longer-term averages, however is not at the very high levels experienced in 2017. Favourable growing conditions in North America have compensated for a later than average planting and the benefit to AGI of a late harvest is no longer anticipated. Based on current conditions, management anticipates that Farm sales and EBITDA in the second half of fiscal 2018 will approximate 2017 levels.

Management anticipates that strong Commercial sales in North America in the second half of 2018 will result from robust demand in Canada for fertilizer and grain systems, offset by lower year-over-year activity in the U.S. In addition, management expects results to benefit from the recent

acquisitions of CMC, Junge and Danmare. AGI's Commercial backlog in North America is substantially higher than the prior year. International sales momentum is expected to continue in the second half due to a very strong backlog with particular strength in EMEA and South America. The recent addition of Sabe in France is also expected to contribute to strong international results. Overall, management anticipates sales and EBITDA related to Commercial equipment in 2018 will be higher than the prior year.

Second quarter results in Brazil improved over previous quarters due to higher sales volumes, improving manufacturing processes and a less significant impact from start-up related costs. Commercial sales and backlog have grown significantly, as AGI's local presence and growing brand recognition in South America is leading to increasing opportunities with local and multinational participants. Farm sales in Brazil increased over the prior year, however access to capital and a cautious approach to capital investment continue to contribute to a competitive marketplace. AGI's backlog in Brazil is substantially higher than the prior year, and management anticipates results will continue to improve in the second half of 2018. Net of start-up related costs, management anticipates a positive contribution from AGI Brazil in the second half of 2018.

On balance, management anticipates trade sales and adjusted EBITDA in the second half of fiscal 2018 will increase compared to 2017. AGI's platform expansion, most significantly to date into the fertilizer and food segments, is resulting in a reduction in our seasonality and cyclicity, and a lower correlation to grain volumes and harvest in a particular season. Accordingly, a higher proportion of our sales and EBITDA are falling into the first half of our fiscal year. Results in the second half of 2018 are expected to benefit from strong demand for Commercial equipment in Canada, a significant increase in international sales and improved demand for Farm equipment in the United States. In addition, trade sales and EBITDA in 2018 are expected to benefit from the recent acquisitions of CMC, Junge, Danmare and Sabe, as well as from improving results in Brazil.

Trade sales and adjusted EBITDA in 2018 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. Steel prices have increased significantly over the last number of quarters and volatility in steel markets may be exacerbated by additional U.S. trade actions. 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 in 2018 include the impact of existing and potential future trade actions, 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.

## OPERATING RESULTS

**Trade Sales<sup>(1)</sup>** (see "Non-IFRS Measures" and "Basis of Presentation - Acquisitions")

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(thousands of dollars)	\$	\$	\$	\$
Trade sales <sup>(1)</sup>	262,651	222,241	476,748	376,930
Foreign exchange loss <sup>(2)</sup>	(2,496)	(1,176)	(2,927)	(1,329)
<b>Total sales <sup>(1)</sup></b>	<b>260,155</b>	<b>221,065</b>	<b>473,821</b>	<b>375,601</b>

## Trade Sales<sup>(1)</sup> by Geography

(thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada, excluding acquisitions	100,611	89,041	172,746	154,362
Acquisitions	2,308	620	3,496	620
<b>Total Canada</b>	<b>102,919</b>	<b>89,661</b>	<b>176,242</b>	<b>154,982</b>
U.S., excluding acquisitions	55,196	64,594	110,640	122,624
Acquisitions	45,871	28,250	77,380	28,250
<b>Total U.S.</b>	<b>101,067</b>	<b>92,844</b>	<b>188,020</b>	<b>150,874</b>
International, excluding acquisitions	50,484	31,233	90,307	62,571
Acquisitions	8,181	8,503	22,179	8,503
<b>Total International</b>	<b>58,665</b>	<b>39,736</b>	<b>112,486</b>	<b>71,074</b>
Total excluding acquisitions	206,291	184,868	373,693	339,557
Total acquisitions	56,360	37,373	103,055	37,373
<b>Total Trade Sales<sup>(1)</sup></b>	<b>262,651</b>	<b>222,241</b>	<b>476,748</b>	<b>376,930</b>

## Trade Sales<sup>(1)</sup> by Category

(thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Farm	93,930	88,260	167,104	164,535
Farm - acquisitions	44,028	32,593	80,102	32,593
<b>Total Farm</b>	<b>137,958</b>	<b>120,853</b>	<b>247,206</b>	<b>197,128</b>
Commercial	112,361	96,608	206,589	175,022
Commercial - acquisitions	12,332	4,780	22,953	4,780
<b>Total Commercial</b>	<b>124,693</b>	<b>101,388</b>	<b>229,542</b>	<b>179,802</b>
<b>Total Trade Sales<sup>(1)</sup></b>	<b>262,651</b>	<b>222,241</b>	<b>476,748</b>	<b>376,930</b>

(1) The Company adopted IFRS 15 in 2018 without retrospective application and as a result in Q1 2018 recorded sales and adjusted EBITDA of \$4.4 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 2017 figures in the above table and elsewhere in this MD&A.

(2) A portion of foreign exchange gains and losses are allocated to sales.

## Canada

- Trade sales in Canada, excluding acquisitions, increased over 2017 due to strong Commercial sales in both the grain and fertilizer markets, partially offset by lower farm sales compared against a very strong 2017 comparative. AGI's Commercial backlog in Canada remains at record levels.
- Sales from acquisitions relate primarily to sales of NECO grain dryers, which have increased significantly in Canada subsequent to our acquisition of Global, and due to the additions of Danmare and CMC whose results were in line with expectations.

## United States

- Excluding acquisitions, trade sales in the United States decreased compared to 2017 as strong sales of portable grain handling equipment were more than offset by lower activity in the Commercial sector.
- Trade sales from acquisitions in the United States remained strong as demand for MFS and Hutch equipment increased compared to pre-acquisition levels due to improving market dynamics for grain storage systems and other handling equipment. Sales from Junge, CMC and Danmare were in line with expectations.

## International

- International sales, excluding acquisitions, for the three and six-month periods increased 62% and 44% over the same periods in 2017. Strong sales in EMEA, including the Black Sea region, and higher sales in Brazil contributed to the strong results. Our international sales order backlog is significantly higher than at the same time in 2017. The backlog is geographically diverse, with particular strength in EMEA and South America.
- International sales from acquisitions relate primarily to offshore sales from MFS and Sentinel, which were concentrated in EMEA and Southeast Asia.

## Gross Margin (see "Non-IFRS Measures" and "Basis of Presentation - Acquisitions")

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(thousands of dollars)	\$	\$	\$	\$
Trade sales <sup>(1)</sup>	262,651	222,241	476,748	376,930
Cost of inventories	179,836	152,252	327,180	252,776
<b>Gross margin <sup>(1)</sup></b>	<b>82,815</b>	<b>69,989</b>	<b>149,568</b>	<b>124,154</b>
<b>Gross margin as a % of trade sales</b>	<b>31.5%</b>	<b>31.5%</b>	<b>31.4%</b>	<b>32.9%</b>

(1) See "Non-IFRS measures".

Gross margin as a percentage of trade sales for the three months ended June 30, 2018 increased over Q1 2018 and was consistent with the prior year. The higher gross margin compared to Q1 2018 is attributable to higher sales volumes, sales mix, and improved results at MFS and in Brazil. For the six-month period ended June 30, 2018, gross margin as percentage of trade sales decreased compared to 2017, primarily due to lower margins in Brazil and at MFS in Q1 2018, and due to the impact of lower Farm sales volumes in Canada and the impact of higher steel prices on AGI's Farm business. The Company remains well positioned with respect to its steel inventory and has increased sales prices to reflect higher input costs, however as anticipated margins were negatively impacted as AGI honors committed pricing on its sales order backlog. AGI's Commercial gross margin percentages were consistent with the prior year, in part because our Commercial business is quoted using current input prices and accordingly is less susceptible to fluctuations in steel costs.

**EBITDA and Adjusted EBITDA** <sup>(6)</sup> (see “Non-IFRS Measures” and “Basis of Presentation – Acquisitions”)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(thousands of dollars)	\$	\$	\$	\$
<b>Profit from continuing operations before income taxes</b>	<b>19,950</b>	<b>21,044</b>	<b>26,123</b>	<b>29,217</b>
Finance costs	8,815	9,116	17,216	15,452
Depreciation and amortization	7,993	8,259	15,924	14,712
<b>EBITDA</b>	<b>36,758</b>	<b>38,419</b>	<b>59,263</b>	<b>59,381</b>
Loss (gain) on foreign exchange	6,632	(4,034)	12,333	(4,616)
Share based compensation	2,972	2,526	4,674	4,882
Gain on financial instruments <sup>(2)</sup>	(1,012)	(3,576)	(1,245)	(2,601)
M&A expenses	700	477	868	1,087
Other transaction expenses <sup>(3)</sup>	2,287	3,754	2,423	5,125
Loss on sale of PP&E	286	30	216	12
Fair value of inventory from acquisitions <sup>(4)</sup>	597	2,503	1,183	2,731
Impairment <sup>(5)</sup>	-	-	232	-
<b>Adjusted EBITDA</b> <sup>(1)(6)</sup>	<b>49,220</b>	<b>40,099</b>	<b>79,947</b>	<b>66,001</b>

(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 assets held for sale at estimated fair value.

(6) The Company adopted IFRS 15 in 2018 without retrospective application and as a result in Q1 2018 recorded sales and adjusted EBITDA of \$4.4 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 2017 figures in the above table and elsewhere in this MD&A.

**DETAILED OPERATING RESULTS**

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(thousands of dollars)	\$	\$	\$	\$
<b>Sales</b>				
Trade sales	262,651	222,241	476,748	376,930
Foreign exchange loss	(2,496)	(1,176)	(2,927)	(1,329)
	260,155	221,065	473,821	375,601

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(thousands of dollars)	\$	\$	\$	\$
<b>Cost of goods sold</b>				
Cost of inventories	179,836	152,252	327,180	252,776
Depreciation /amortization	4,878	5,484	9,818	10,199
	184,714	157,736	336,998	262,975
<b>Selling, general and administrative expenses</b>				
SG&A expenses	37,666	35,456	76,514	66,724
M&A expenses	700	477	868	1,087
Other transaction expenses <sup>(2)</sup>	2,287	3,754	2,423	5,125
Depreciation /amortization	3,115	2,775	6,106	4,513
	43,768	42,462	85,911	77,449
<b>Other operating expenses</b>				
Net loss on disposal of PP&E	286	30	216	12
Net gain on financial instruments	(979)	(3,576)	(1,245)	(2,601)
Other	(492)	(581)	(940)	(934)
	(1,185)	(4,127)	(1,969)	(3,523)
Impairment charge	-	-	232	-
Finance costs	8,815	9,116	17,216	15,452
Finance expense (income)	4,093	(5,166)	9,310	(5,969)
<b>Profit from continuing operations before income taxes</b>	19,950	21,044	26,123	29,217
Income tax expense	7,158	6,316	8,388	9,367
<b>Profit for the period from continuing operations</b>	12,792	14,728	17,735	19,850
Profit from discontinued operations	-	21	-	26
<b>Profit for the period</b>	<b>12,792</b>	<b>14,749</b>	<b>17,735</b>	<b>19,876</b>
<b>Profit per share</b>				
Basic	0.78	0.92	1.08	1.26
Diluted	0.75	0.88	1.06	1.22

(1) See "Non-IFRS Measures".

(2) Includes restructuring and other acquisition related transition costs, as well as the accretion and other movement in contingent consideration and amounts due to vendors.

(3) The Company adopted IFRS 15 in 2018 without retrospective application and as a result in Q1 2018 recorded sales and adjusted EBITDA of \$4.4 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 2017 figures in the above table and elsewhere in this MD&A.

## **Impact of Foreign Exchange**

### *Gains and Losses on Foreign Exchange*

The 2018 loss on foreign exchange was a non-cash loss 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 quarter. The gain on foreign exchange in 2017 also related to the impact of non-cash translation, partially offset by a realized loss on foreign exchange forward contracts of \$0.7 million. As at June 30, 2018, 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 six months ended June 30, 2018 was \$1.29 (2017 - \$1.35) and \$1.27 (2017 – \$1.34), respectively. A stronger Canadian dollar relative to the U.S. dollar results in lower reported sales for AGI, as U.S. dollar denominated sales are translated into Canadian dollars at a lower rate. Similarly, a stronger Canadian dollar results in lower costs for U.S. dollar denominated inputs and SG&A expenses. In addition, a stronger Canadian dollar may result in lower input costs of certain Canadian dollar denominated inputs, including steel. On balance, adjusted EBITDA decreases when the Canadian dollar strengthens relative to the U.S. dollar.

## **Selling, General and Administrative Expenses ("SG&A")**

SG&A expenses in the three and six-month periods ended June 30, 2018, excluding M&A expenses, other transaction expenses and depreciation/amortization, were \$37.7 million (14% of trade sales) and \$76.5 million (16%), respectively, versus \$35.5 million (16%) and \$66.8 million (18%), respectively, in 2017. Excluding acquisitions, SG&A expenses in 2018 were \$29.8 million (14% of trade sales) and \$60.6 million (16%), respectively, versus \$28.7 million (16%) and \$60.0 million (18%) in 2017.

Excluding acquisitions, the increase in the three and six-month periods in 2018 is primarily the result of recurring expenses related to recent investments in AGI's technology platform, offset by a one-time bad debt recovery of \$0.6 million. Compared to 2017, the six-month period ended June 30, 2018 also benefited from lower accounting and legal expenses in Q1 2018 of \$0.8 million. No other variances exceeded \$0.5 million.

## **Finance Costs**

Finance costs in the three and six-month periods ended June 30, 2018 were \$8.8 million and \$17.2 million, respectively, versus \$9.1 million and 15.5 million, respectively, in 2017. The lower expense in the three-month period ended June 30, 2018 is largely the result of the Q1 2018 refinancing of a convertible debenture series at a lower interest rate. The higher expense for the six months ended June 30, 2018 relates primarily to financing the acquisition of Global in April 2017. Finance costs in both periods include non-cash interest related to convertible debenture accretion, the amortization of deferred finance costs related to the convertible debentures, stand-by fees and other sundry cash interest.



### **Finance Expense (income)**

Finance expenses in the three and six-month periods ended June 30, 2018 were \$4.1 million and \$9.3 million, respectively, versus finance income of \$5.2 million and \$6.0 million, respectively, in 2017. 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.

### **Other Operating Income**

Other operating income in the three and six-month periods ended June 30, 2018 were \$1.2 million and \$2.0 million, respectively, versus \$4.1 million and \$3.5 million, respectively, in 2017. The income includes non-cash gains and losses on financial instruments (see "Equity Compensation Hedge") and gains on the sale of property plant and equipment. The increase in 2018 is primarily the result of income related to the delivery of equipment in accordance with the share purchase agreement with NuVision.

### **Depreciation and amortization**

Depreciation of property, plant and equipment 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 2018 primarily relates to the acquisitions of Global, CMC, Junge and Danmare.

### **Income tax expense**

#### *Current income tax expense*

For the three and six-month periods ended June 30, 2018, the Company recorded current tax expense of \$4.7 million and \$5.1 million, respectively, versus \$1.9 million and \$4.2 million, respectively, in 2017. Current tax expense relates primarily to AGI's U.S. and Italian subsidiaries.

#### *Deferred income tax expense*

For the three and six-month periods ended June 30, 2018, the Company recorded deferred tax expense of \$2.5 million and \$3.3 million, respectively, versus \$4.4 million and 5.2 million, respectively, in 2017. Deferred tax expense in 2018 relates to the decrease of deferred tax assets plus an increase in deferred tax liabilities that relate to recognition of temporary differences between the accounting and tax treatment of property, plant and equipment, Intangible assets, Canadian exploration expenses and EIAP liability.

Upon conversion to a corporation from an income trust in June 2009 (the "Conversion") the Company received certain tax attributes that may be used to offset tax otherwise payable in Canada. The Company's Canadian taxable income is based on the results of its divisions domiciled in Canada, including the corporate office, and realized gains or losses on foreign exchange. For the six-month period ended June 30, 2018, the Company offset \$4.2 of Canadian tax otherwise payable (2017 – \$8.5 million). Through the use of these attributes and since the date of Conversion a cumulative amount of \$54.7 million has been utilized. Utilization of these tax attributes is recognized in deferred income tax expense on the Company's income statement. As at June 30, 2018, the balance sheet asset related to these unused attributes was \$0.3 million.

## Effective tax rate

(thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Current tax expense	4,672	1,891	5,098	4,184
Deferred tax expense	2,486	4,425	3,290	5,183
<b>Total tax</b>	<b>7,158</b>	<b>6,316</b>	<b>8,388</b>	<b>9,367</b>

Profit from continuing operations before income taxes	19,950	21,044	26,123	29,217
Total tax %	35.9%	30.0%	32.1%	32.1%

The effective tax rate in 2018 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 per share and Diluted adjusted profit per share". The effective tax rate in 2018 was also impacted by the United States corporate income tax rate decrease.

## Diluted profit per share and diluted adjusted profit per share

Diluted profit per share in Q2 2018 was \$0.75 (2017 - \$0.88) and for the six-months ended June 30, 2018 was \$1.06 (2017 - \$1.22). The decrease is largely due to higher adjusted EBITDA being offset by higher finance costs and a loss on foreign exchange. Profit per share in 2018 and 2017 has been impacted by the items enumerated in the table below, which reconciles profit to adjusted profit:

(thousands of dollars except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Profit	12,792	14,749	17,735	19,876
Diluted profit per share	0.75	0.88	1.06	1.22
Loss (gain) on foreign exchange	6,632	(4,034)	12,333	(4,616)
Fair value of inventory from acquisition <sup>(2)</sup>	597	2,503	1,183	2,731
M&A expenses	700	477	868	1,087
Other transaction expenses <sup>(3)</sup>	2,287	3,754	2,423	5,125
Gain on financial instruments	(1,012)	(3,576)	(1,245)	(2,601)
Loss on sale of PP&E	286	30	216	12
Impairment charge <sup>(4)</sup>	-	-	232	-
<b>Adjusted profit <sup>(1)</sup></b>	<b>22,282</b>	<b>13,903</b>	<b>33,745</b>	<b>21,614</b>
Diluted adjusted profit per share <sup>(1)</sup>	1.21	0.84	1.91	1.33

(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.

## QUARTERLY FINANCIAL INFORMATION

(thousands of dollars other than per share amounts and exchange rate):

2018					
	Average USD/CAD Exchange Rate	Sales <sup>(1)</sup> \$	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
<b>YTD</b>	<b>1.27</b>	<b>473,821</b>	<b>17,735</b>	<b>1.08</b>	<b>1.06</b>

2017					
	Average USD/CAD Exchange Rate	Sales <sup>(1)</sup> \$	Profit (Loss) \$	Basic Profit (Loss) per Share \$	Diluted Profit (Loss) per Share \$
Q1	1.32	154,536	5,127	0.33	0.33
Q2	1.35	221,065	14,749	0.92	0.88
Q3	1.26	206,614	15,588	0.97	0.92
Q4 <sup>(1)</sup>	1.27	167,182	(1,800)	(0.11)	(0.11)
<b>YTD<sup>(1)</sup></b>	<b>1.31</b>	<b>749,397</b>	<b>33,664</b>	<b>2.11</b>	<b>2.08</b>

2016								
	From Continuing Operations						Total <sup>(2)</sup>	
	Avg USD / CAD FX Rate	Sales	Profit (Loss)	Basic Profit (Loss) per Share	Diluted Profit (Loss) per Share	Profit (Loss)	Basic Profit (Loss) per Share	Diluted Profit (Loss) per Share
Q1	1.38	111,723	6,257	\$0.43	\$0.42	5,697	\$0.39	\$0.38
Q2	1.29	140,837	4,245	\$0.29	\$0.28	5,285	\$0.36	\$0.35
Q3	1.34	158,680	12,952	\$0.87	\$0.84	13,034	\$0.88	\$0.85
Q4	1.32	120,376	(4,501)	(\$0.30)	(\$0.30)	(4,710)	(\$0.32)	(\$0.32)
<b>YTD</b>	<b>1.32</b>	<b>531,616</b>	<b>18,953</b>	<b>\$1.29</b>	<b>\$1.27</b>	<b>19,306</b>	<b>\$1.31</b>	<b>\$1.29</b>

(1) The Company adopted IFRS 15 in 2018 without retrospective application and as a result in Q1 2018 recorded sales and adjusted EBITDA of \$4.4 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 2017 figures in the above table and elsewhere in this MD&A.

(2) Include results from Applegate and Mepu which were classified as discontinued operations in 2016.

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

- AGI's acquisitions of Entringer (Q1 2016), NuVision (Q2 2016), Mitchell (Q3 2016), Yargus (Q4 2016), Global (Q2 2017), CMC (Q4 2017), Junge (Q4 2017) and Danmare (Q1 2018) 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. Our sales historically have been higher in the second and third calendar quarters compared with the first and fourth quarters and our 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 convertible 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 June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Profit before tax from continuing operations	19,950	21,044	26,123	29,217
Items not involving current cash flows	19,030	3,717	36,898	11,729
Cash provided by operations	38,980	24,761	63,021	40,946
Net change in non-cash working capital	(15,555)	(9,331)	(39,907)	(10,488)
Non-current accounts receivable and other	1,165	(262)	462	(1,141)
Long-term payables	-	-	(135)	-
Settlement of EIAP obligation	(60)	-	(2,010)	-
Costs related to put-option	-	(48)	-	(48)
Income tax recovered (paid)	(4,074)	(5,729)	(4,123)	(7,823)
Cash flows (used in) provided by operating activities	20,456	9,391	17,308	21,466
Cash used in investing activities	(9,666)	(158,798)	(40,713)	(183,205)
Cash (used in) provided by financing activities	(13,099)	179,180	(22,103)	234,139

(thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net increase (decrease) in cash from continuing operations during the period	(2,309)	29,773	(45,508)	72,380
Net (decrease) in cash from discontinued operations	-	39	-	26
Cash, beginning of period	20,782	45,368	63,981	2,774
<b>Cash, end of period</b>	<b>18,473</b>	<b>75,180</b>	<b>18,473</b>	<b>75,180</b>

Cash provided by operating activities in the three-month period ended June 30, 2018 increased compared to 2017 as a higher adjusted EBITDA was partially offset by increased use of working capital. For the six-month period then ended, cash provided by operating activities decreased compared to 2017 as the investment in working capital more than offset higher adjusted EBITDA in 2018. The change in 2018 is related primarily to an increase in inventory, the result of higher input costs, a higher level of business activity and the strategic procurement of steel, as well as an increase in accounts receivable related to higher sales. Offsetting these increases were an increase in accounts payable and the timing of customer deposits. Cash used in investing activities relates to the acquisitions of Junge and Danmare. Cash used in financing activities relates primarily to dividends paid and the redemption of the 2013 Convertible Debentures net of the issuance of the 2018 Convertible Debentures.

### Working Capital Requirements

Interim period working capital requirements typically reflect the seasonality of the business. AGI's collections of accounts receivable 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 increasing throughout the year and peaking in the third quarter. Inventory levels typically increase in the first and second quarters and then begin to decline in the third or fourth quarter as sales levels exceed production. Requirements for 2018 have been generally consistent with historical patterns however recent acquisitions have had the effect of increasing working capital requirements in Q4 and Q1. Growth in international business has resulted in an increase in the number of days accounts receivable remain outstanding and result in increased usage of working capital in certain quarters. Working capital has also been deployed to secure steel supply and pricing. Recent acquisitions have not significantly impacted AGI's working capital requirements.

### Capital Expenditures

Maintenance capital expenditures in the three and six months ended June 30, 2018 were \$2.5 million (1.0% of trade sales) and \$5.5 million (1.2%), respectively, versus \$2.6 million (1.2%) and \$5.6 million (1.5%), respectively, in 2017. Maintenance capital expenditures in 2018 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 six months ended June 30, 2018 of \$5.8 million and \$10.7 million, respectively, versus \$13.7 million and \$30.9 million, respectively, in 2017. In 2018, 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 \$25 million in fiscal 2018. Maintenance and non-maintenance capital expenditures in 2018 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 June 30, 2018 the Company's contractual obligations for the periods indicated:

(thousands of dollars)	<b>Total</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023+</b>
	\$	\$	\$	\$	\$	\$	\$
2014 Debentures	51,750	-	51,750	-	-	-	-
2015 Debentures	75,000	-	-	75,000	-	-	-
2017 Debentures	86,250	-	-	-	-	86,250	-
2018 Debentures	86,250	-	-	-	-	86,250	-
Long-term debt	314,309	83	134	125	216,042	40,005	57,920
Finance lease <sup>(1)</sup>	58	12	26	20	-	-	-
Operating leases	8,547	1,660	2,419	1,731	1,162	823	752
Due to vendor <sup>(2)</sup>	16,916	8,185	7,660	310	761	-	-
Contingent consideration	10,151	6,694	3,457	-	-	-	-
Purchase obligations <sup>(3)</sup>	11,266	11,266	-	-	-	-	-
<b>Total obligations</b>	<b>660,497</b>	<b>27,900</b>	<b>65,446</b>	<b>77,186</b>	<b>217,965</b>	<b>213,328</b>	<b>58,672</b>

(1) Includes interest.

(2) Partially settled with AGI inventory.

(3) Net of deposit.

The Debentures relate to the aggregate principal amount of the convertible debentures (see "Capital Resources - Convertible Debentures") and long-term debt is comprised of a revolver facility, term debt and non-amortizing notes (see "Capital Resources - Debt Facilities").

## CAPITAL RESOURCES

### Assets and Liabilities

(thousands of dollars)	Six Months Ended June 30	
	2018	2017
	\$	\$
Total assets	1,182,897	1,148,385
Total liabilities	865,304	846,282

## Cash

The Company's cash balance at June 30, 2018 was \$18.5 million (December 31, 2017 - \$64.0 million; June 30, 2017 -75.2 million). The Company's cash balance at June 30, 2017 included a portion of the proceeds of AGI's February 2017 equity offering, which were subsequently used to finance the acquisition of Global.

## Debt Facilities

(thousands of dollars)	Currency	Maturity	Total Facility (CAD) \$	Amount Drawn \$	Effective Interest Rate
Operating Facility	CAD	2021	20,000	-	4.68%
Operating Facility	USD	2021	9,218	-	5.91%
Revolver <sup>(1)(2)</sup>	USD	2021		50,038	3.73%
Revolver <sup>(2)</sup>	USD	2021	170,000	26,336	5.91%
Revolver <sup>(2)</sup>	USD	2021		89,543	5.41%
Term Loan A <sup>(1)</sup>	CAD	2021	50,000	50,000	3.59%
Term Loan B <sup>(1)</sup>	CAD	2022	40,000	40,000	4.32%
Series B Notes <sup>(3)</sup>	CAD	2025	25,000	25,000	4.44%
Series C Notes <sup>(3)</sup>	USD	2026	32,920	32,920	3.70%
Equipment Financing <sup>(3)</sup>	CAD	2021	472	472	0.00%
Accordion	CAD	2021	75,000	-	5.00%
<b>Total</b>			<b>422,610</b>	<b>314,309</b>	

(1) Interest rate fixed via interest rate swaps. See "Interest Rate Swaps".

(2) Revolver facilities have a maximum combined total of \$170 million and can be drawn in CAD or USD.

(3) Fixed interest rate.

The Company has a credit facility (the "Credit Facility") with a syndicate of Canadian chartered banks that includes committed revolver facilities of \$170 million from which CAD or USD can be drawn and a \$75 million accordion feature which is undrawn. The Company's Term Loans A and B are with the same chartered banks with which it has the Credit Facility. Amounts drawn under the Credit Facility bear interest at LIBOR plus 1.50% to LIBOR plus 3.00%, prime plus 0.2% to prime plus 1.75%, BA plus 1.50% to BA plus 3.0%, or BA plus 2.50% per annum based on covenant calculations.

The Company has issued US \$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.

## Convertible Debentures

The following table summarizes the key terms of the convertible unsecured subordinated debentures of the Company that were outstanding as at June 30, 2018:

<b>Year Issued / TSX Symbol</b>	<b>Aggregate Principal Amount \$</b>	<b>Coupon</b>	<b>Conversion Price \$</b>	<b>Maturity Date</b>	<b>Redeemable at Par <sup>(1)(2)</sup></b>
2014 (AFN.DB.B)	51,750,000	5.25%	65.57	Dec 31, 2019	Jan 1, 2019
2015 (AFN.DB.C)	75,000,000	5.00%	60.00	Dec 31, 2020	Jan 1, 2020
2017 (AFN.DB.D)	86,250,000	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, 2021

(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 of any series of convertible debentures, the Company may, at its option, subject to regulatory approval and provided that no event of default has occurred with respect to such series of debentures, elect to satisfy its obligation to pay the principal amount of such debentures, in whole or in part, by issuing and delivering for each \$100 due that number of freely tradeable Common Shares obtained by dividing \$100 by 95% of the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the maturity date, as the case may be. Any accrued and unpaid interest thereon will be paid in cash. The Company may also elect, subject to any required regulatory approval and provided that no event of default has occurred with respect to the applicable series of debentures, to satisfy all or part of its obligation to pay interest on such debentures by delivering sufficient freely tradeable Common Shares to satisfy its interest obligation.

On January 8, 2018, holders of the 2013 Debentures exercised the conversion option for \$8,679,000 aggregate principal amount, and were issued 157,781 common shares. On January 9, 2018, the Company redeemed the remaining 2013 Debentures.

On January 3, 2018 (and January 9, 2018, with respect to the over-allotment portion), the Company issued a new series of convertible unsecured subordinated debentures (the "2018 Debentures") (AFN.DB.E)) with an aggregate principal amount of \$86.25 million, a coupon of 4.50% and a maturity date of December 31, 2022. The 2018 Debentures have substantially the same terms as the other Debentures described above including being convertible at the holder's option at a conversion price of \$88.15 per common share, being redeemable at par on and after December 31, 2020 (and during the preceding twelve-month period, provided that the volume weighted average trading price of the Common Shares 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, and the principal and interest thereon may be satisfied through the issue of Common Shares in certain circumstances.



## COMMON SHARES

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

	<b># Common Shares</b>
December 31, 2017	16,160,916
Conversion of 2013 Debentures	157,781
Shares issued under EIAP	129,487
Shares issued under DRIP	26,132
<b>June 30, 2018</b>	<b>16,474,316</b>

At August 9, 2018:

- 16,474,316 Common Shares are outstanding;
- 1,215,000 Common Shares are available for issuance under the Company's Equity Award Incentive Plan (the "EIAP"), of which 846,678 have been granted and 368,322 remain unallocated;
- 73,985 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
- 4,640,965 Common Shares are issuable on conversion of the outstanding convertible debentures, of which there are an aggregate principal amount of \$282.5 million outstanding.

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

## DIVIDENDS

In the three months ended June 30, 2018, AGI declared dividends to shareholders of \$9.9 million (2017 - \$9.6 million). 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, and through the DRIP. In the three-months ended June 30, 2018, dividends paid to shareholders were financed \$9.6 million (2017 - \$8.3 million) from cash on hand and \$0.3 million (2017 - \$1.3 million) by the DRIP. AGI suspended its DRIP in Q2 2018.

## FUNDS FROM OPERATIONS AND PAYOUT RATIO

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.

	Six Months Ended June 30		Last Twelve Months Ended June 30	
	2018	2017	2018	2017
(thousands of dollars)	\$	\$	\$	\$
Adjusted EBITDA <sup>(1)</sup>	79,947	66,001	137,275	120,640
Interest expense	(17,216)	(15,452)	(37,472)	(27,591)
Non-cash interest	1,813	2,471	6,580	4,681
Cash taxes	(4,123)	(7,823)	(4,767)	(16,480)
Maintenance CAPEX	(5,515)	(5,648)	(11,084)	(7,358)
IFRS 15 adjustment <sup>(1)</sup>	-	-	(1,532)	-
Realized loss on FX contracts	-	(710)	-	(8,867)
<b>Funds from operations</b>	<b>54,906</b>	<b>38,839</b>	<b>89,000</b>	<b>65,025</b>
Dividends	19,745	19,004	39,106	36,710
<b>Payout Ratio</b>	<b>36%</b>	<b>49%</b>	<b>44%</b>	<b>56%</b>

(1) The Company adopted IFRS 15 in 2018 without retrospective application and as a result in Q1 2018 recorded sales and adjusted EBITDA of \$4.4 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 2017 figures in the above table and elsewhere in this MD&A.

## 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 June 30, 2018.

### 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 <sup>(2)</sup>
Term Loan A	CAD	2021	50,000	3.59%
Term Loan B	CAD	2022	40,000	4.32%
Revolver <sup>(1)</sup>	USD	2021	50,033	3.73%

(1) USD \$38.0 million converted at the rate of exchange at March 31, 2018.

(2) With performance adjustments.

The change in fair value of the interest rate swap contracts in place as at June 30, 2018 was an unrealized gain of \$0.1 million. The Company has elected to apply hedge accounting for these contracts and the unrealized gain has been recognized in other comprehensive income.

## **Equity Compensation hedge**

The Company holds an equity swap agreement with a financial institution to manage the cash flow exposure due to fluctuations in its share price related to the EIAP. As at June 30, 2018, the equity swap agreement covered 590,000 Common Shares at a weighted average price of \$36.95 and the maturity date of the agreement is April 6, 2021.

## **2017 ACQUISITIONS**

### **Global Industries, Inc.**

On April 4, 2017, AGI acquired Global for U.S. \$100 million, subject to customary closing adjustments. Global is a diversified manufacturer of grain storage bins, portable and stationary grain handling equipment, grain drying and aeration equipment, structural components, and steel buildings. Global's normalized EBITDA averaged approximately U.S. \$11.5 million over the three years ended November 30, 2016, with fiscal 2016 being below the three-year average. In the four years prior to 2015, being the years before the current downturn in the U.S. farm market, Global's normalized EBITDA averaged approximately U.S. \$17 million. Three of Global's four operating divisions, representing approximately 85% of sales, are categorized as Farm divisions in this MD&A. Global's sales have historically been weighted approximately 75% in the U.S. with the majority of the balance overseas, and for its year-ended November 30, 2016, total sales were U.S. \$112 million.

### **CMC Industrial Electronics Ltd. and Junge Control, Inc.**

In December 2017, AGI acquired CMC and Junge. CMC is a leading supplier of hazard monitoring sensors and systems used in agricultural material handling applications. CMC also manufactures commercial bin monitoring sensors and systems. Junge is a leading manufacturer of automation, measurement and blending systems for the agriculture and fuel industries. Combined sales and adjusted EBITDA for the two entities in their most recently completed fiscal years were approximately \$15 million and \$4 million, respectively.

## **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 most recently completed fiscal year were \$6.4 million and \$1.7 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. The total cost of these legal services related to an offering of convertible debentures and general matters were \$0.6 million during the six-month period ended June 30, 2018 [2017 – \$0.3 million], and \$0.1 million is included in accounts payable and accrued liabilities as at June 30, 2018. These transactions are measured at the exchange amount and were incurred during the normal course of business.

Salthammer Inc. provides consulting services to the Company and a Director of AGI is the owner of Salthammer Inc. The total cost of these consulting services, related primarily to operations in Brazil, was \$0.1 million during the six-month period ended June 30, 2018 [2017 – \$0.1 million], and nil is included in accounts payable and accrued liabilities as at June 30, 2018.

## **CRITICAL ACCOUNTING ESTIMATES**

Described in the notes to the Company's 2017 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, 2017 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](http://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**

### **Adoption of new accounting standards**

#### *IFRS 9, Financial instruments*

The Company adopted IFRS 9 with a date of application of January 1, 2018. The Company adopted IFRS 9 retrospectively without restatement of prior periods, other than the hedge accounting provisions of IFRS 9 that have been applied prospectively effective January 1, 2018, and accordingly elected to not restate the comparative figures. IFRS 9 introduces new requirements for the classification and measurement of financial assets, introduces a forward-looking expected loss impairment model, and amends the requirements related to hedge accounting.

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

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

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at January 1, 2018 had no impact on the measurement of financial instruments, with the exception of long term debt. In 2017, the Company amended its credit facilities to extend

the maturity from May 2019 to April 2021, and as result of the change in maturity and adoption of IFRS 9 an adjustment to increase opening retained earnings by \$175 was recorded.

For additional information, please refer to Note 3 of the accompanying notes of the unaudited interim condensed consolidated comparative financial statements for the three and six-month periods ended June 30, 2018.

#### *IFRS 15, Revenue from Contracts with Customers*

The Company adopted IFRS 15 with an application date of January 1, 2018. The Company applied the modified retrospective method for adopting IFRS 15 and therefore, the comparative information has not been restated and continues to be reported under IAS 18, Revenue and IAS 11, Construction Contracts. Under the modified approach, the cumulative effect of initially applying IFRS 15 is an adjustment to decrease opening retained earnings by \$1,532. The adjustment results from the change in the basis of revenue recognition from the transfer of risk and rewards of ownership to the transfer of control. Consequently, revenue recognition was delayed until completion of the performance obligations. As at June 30, 2018, \$1,546, net of foreign exchange, has been recorded into income upon the Company's completion of its performance obligations in accordance with IFRS 15.

For additional information, please refer to Note 3 of the accompanying notes of the unaudited interim condensed consolidated comparative financial statements for the three and six month periods ended June 30, 2018.

#### *IFRS 2, Share-based payment*

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

### **Standards issued but not yet effective**

#### *IFRS 16, Leases*

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

## 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 June 30, 2017 AGI acquired CMC, Junge and Danmare. 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 CMC, Junge and Danmare. The following is the summary financial information pertaining to CMC, Junge and Danmare that was included in AGI's consolidated financial statements for the six-month ended June 30, 2018:

(thousands of dollars)	CMC/Junge/Danmare \$
Revenue <sup>(1)</sup>	12,515
Profit (loss) <sup>(1)</sup>	(678)
Current assets <sup>(1)(2)</sup>	10,843
Non-current assets <sup>(1)(2)</sup>	30,286
Current liabilities <sup>(1)(2)</sup>	6,033
Non-current liabilities <sup>(1)(2)</sup>	85

(1) Net of intercompany

(2) Balance sheet as at June 30, 2018

There have been no material changes in AGI's internal controls over financial reporting that occurred in the three-month period ended June 30, 2018, 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 from continuing operations before income taxes, finance costs, depreciation and amortization. References to “adjusted EBITDA” are to EBITDA before the Company's gain or loss on foreign exchange, gains or losses on the sale of property, plant & equipment, non-cash share based compensation expenses, gains or losses on financial instruments, non-cash contingent consideration expenses, expenses related to corporate acquisition activity, fair value of inventory from acquisitions 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 from continuing operations 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 and amortization 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 cash taxes, cash interest expense, realized losses on foreign exchange 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 (gain) loss on foreign exchange, fair value of inventory from acquisitions, transaction costs, non-cash loss (profit) on discontinued operations, contingent consideration expense and gain (loss) on sale of property, plant and equipment. See "Detailed Operating Results – Diluted profit per share and Diluted adjusted profit per share” for the reconciliation of diluted profit per share and diluted adjusted profit per share to profit as reported.

In addition, this MD&A refers to: "normalized EBITDA" of Global for certain financial periods, which is earnings of Global before income taxes, finance costs, depreciation and amortization, and one-time events, and after certain normalization adjustments including owner/manager compensation structure, related party transactions, and rationalizations. The financial information in this MD&A relating to Global including normalized EBITDA is derived from Global's financial statements, which are prepared in accordance with United States generally accepted accounting principles, 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, 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 MD&A for the year ended December 31, 2017 and in our most recently filed Annual Information Form, all of which are available under the Company's profile on SEDAR ([www.sedar.com](http://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](http://www.sedar.com)).

Unaudited interim condensed consolidated financial statements

**Ag Growth International Inc.**

June 30, 2018

**Ag Growth International Inc.**

**Unaudited interim condensed consolidated statements of financial position**

[in thousands of Canadian dollars]

As at

	June 30, 2018	December 31, 2017
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	18,473	63,981
Cash held in trust and restricted cash	16,381	15,182
Accounts receivable <i>[note 6]</i>	146,548	99,017
Inventory	181,875	158,635
Prepaid expenses and other assets	20,953	17,616
Current portion of note receivable	75	89
Income taxes recoverable	1,651	885
	<b>385,956</b>	<b>355,405</b>
<b>Non-current assets</b>		
Property, plant and equipment, net <i>[note 7]</i>	311,912	304,543
Goodwill <i>[note 8]</i>	240,653	234,669
Intangible assets, net <i>[note 9]</i>	220,774	218,156
Available-for-sale investment <i>[note 3]</i>	—	900
Investment <i>[note 3]</i>	900	—
Non-current accounts receivable <i>[note 6]</i>	3,718	4,180
Note receivable	640	700
Income taxes recoverable	3,017	4,230
Derivative instruments <i>[note 20(b) and (c)]</i>	13,445	11,466
Other assets <i>[note 16]</i>	239	—
Deferred tax asset	116	183
	<b>795,414</b>	<b>779,027</b>
Assets held for sale <i>[note 10]</i>	1,527	2,842
<b>Total assets</b>	<b>1,182,897</b>	<b>1,137,274</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>[note 21]</i>	117,067	96,071
Customer deposits	51,529	40,662
Dividends payable	3,295	3,232
Current portion of contingent consideration	6,694	5,306
Due to vendor	16,155	33,309
Income taxes payable	3,796	4,945
Current portion of long-term debt <i>[note 11]</i>	133	117
Current portion of obligations under finance lease	25	983
Current portion of convertible unsecured subordinated debentures	—	86,155
Provisions	6,146	5,909
	<b>204,840</b>	<b>276,689</b>
<b>Non-current liabilities</b>		
Long-term debt <i>[note 11]</i>	312,259	302,859
Due to vendor	761	725
Contingent consideration	3,457	3,731
Other financial liabilities	—	3,378
Convertible unsecured subordinated debentures <i>[note 12]</i>	282,453	199,903
Obligations under finance lease	33	19
Deferred tax liability	61,501	57,758
	<b>660,464</b>	<b>568,373</b>
<b>Total liabilities</b>	<b>865,304</b>	<b>845,062</b>
<b>Shareholders' equity <i>[note 13]</i></b>		
Common shares	338,491	323,199
Accumulated other comprehensive income	42,599	29,638
Equity component of convertible debentures	11,336	9,903
Contributed surplus	20,603	20,956
Deficit	(95,436)	(91,484)
<b>Total shareholders' equity</b>	<b>317,593</b>	<b>292,212</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,182,897</b>	<b>1,137,274</b>

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert  
Director

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

**Ag Growth International Inc.**

**Unaudited interim condensed consolidated statements of income**

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
<b>Sales [note 22]</b>	<b>260,155</b>	221,065	<b>473,821</b>	375,601
Cost of goods sold [note 15[d]]	<b>184,714</b>	157,736	<b>336,998</b>	262,975
<b>Gross profit</b>	<b>75,441</b>	63,329	<b>136,823</b>	112,626
<b>Expenses</b>				
Selling, general and administrative [note 15[e]]	<b>43,768</b>	42,462	<b>85,911</b>	77,449
Other operating income [note 15[a]]	<b>(1,185)</b>	(4,127)	<b>(1,969)</b>	(3,523)
Impairment charge	—	—	<b>232</b>	—
Finance costs [note 15[c]]	<b>8,815</b>	9,116	<b>17,216</b>	15,452
Finance expense (income) [note 15[b]]	<b>4,093</b>	(5,166)	<b>9,310</b>	(5,969)
	<b>55,491</b>	42,285	<b>110,700</b>	83,409
Profit from continuing operations before income taxes	<b>19,950</b>	21,044	<b>26,123</b>	29,217
Income tax expense [note 17]				
Current	<b>4,672</b>	1,891	<b>5,098</b>	4,184
Deferred	<b>2,486</b>	4,425	<b>3,290</b>	5,183
	<b>7,158</b>	6,316	<b>8,388</b>	9,367
Profit from continuing operations	<b>12,792</b>	14,728	<b>17,735</b>	19,850
Profit from discontinued operations, net of income taxes	—	21	—	26
<b>Profit for the period</b>	<b>12,792</b>	14,749	<b>17,735</b>	19,876
Profit per share from continuing operations [note 18]				
Basic	<b>0.78</b>	0.92	<b>1.08</b>	1.26
Diluted	<b>0.75</b>	0.88	<b>1.06</b>	1.22
Profit per share from discontinued operations [note 18]				
Basic	<b>0.00</b>	0.00	<b>0.00</b>	0.00
Diluted	<b>0.00</b>	0.00	<b>0.00</b>	0.00
Profit per share [note 18]				
Basic	<b>0.78</b>	0.92	<b>1.08</b>	1.26
Diluted	<b>0.75</b>	0.88	<b>1.06</b>	1.22

See accompanying notes

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	<b>Three-month period ended</b>		<b>Six-month period ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
	\$	\$	\$	\$
Profit for the period	<b>12,792</b>	14,749	<b>17,735</b>	19,876
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	<b>136</b>	663	<b>726</b>	843
(Gains) losses on derivatives designated as cash flow hedges recognized in net earnings in the current period	—	(4)	—	858
Exchange differences on translation of foreign operations	<b>(2,092)</b>	(12,745)	<b>12,078</b>	(14,059)
Income tax effect on cash flow hedges	<b>(37)</b>	(171)	<b>(197)</b>	(453)
Other comprehensive income (loss) from discontinued operations	—	6	—	(201)
	<b>(1,993)</b>	(12,251)	<b>12,607</b>	(13,012)
Items that will not be reclassified to profit or loss				
Actuarial loss (gain) on defined benefit plans	<b>540</b>	(1,052)	<b>486</b>	(1,236)
Income tax effect on defined benefit plans	<b>(147)</b>	284	<b>(132)</b>	334
	<b>393</b>	(768)	<b>354</b>	(902)
<b>Other comprehensive income (loss) for the period</b>	<b>(1,600)</b>	(13,019)	<b>12,961</b>	(13,914)
<b>Total comprehensive income for the period</b>	<b>11,192</b>	1,730	<b>30,696</b>	5,962

See accompanying notes

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Six-month period ended June 30, 2018

	<b>Common shares</b>	<b>Equity component of convertible debentures</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Cash flow hedge reserve</b>	<b>Foreign currency reserve</b>	<b>Defined benefit plan reserve</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2018</b>	<b>323,199</b>	<b>9,903</b>	<b>20,956</b>	<b>(92,842)</b> <sup>1</sup>	<b>1,283</b>	<b>28,618</b>	<b>(263)</b>	<b>290,854</b>
Profit for the period	—	—	—	<b>17,735</b>	—	—	—	<b>17,735</b>
Other comprehensive income	—	—	—	—	<b>529</b>	<b>12,078</b>	<b>354</b>	<b>12,961</b>
Share-based payment transactions <i>[note 13[a], [b]]</i>	<b>5,230</b>	—	<b>(353)</b>	—	—	—	—	<b>4,877</b>
Dividend reinvestment plan <i>[note 13[c]]</i>	<b>1,384</b>	—	—	—	—	—	—	<b>1,384</b>
Dividends paid to shareholders <i>[note 13[c]]</i>	—	—	—	<b>(19,742)</b>	—	—	—	<b>(19,742)</b>
Dividends on share-based compensation awards <i>[note 13[c]]</i>	—	—	—	<b>(587)</b>	—	—	—	<b>(587)</b>
Issuance of convertible unsecured subordinated debentures <i>[note 12]</i>	—	<b>1,433</b>	—	—	—	—	—	<b>1,433</b>
Conversion of convertible unsecured subordinated debentures <i>[note 12]</i>	<b>8,678</b>	—	—	—	—	—	—	<b>8,678</b>
<b>As at June 30, 2018</b>	<b>338,491</b>	<b>11,336</b>	<b>20,603</b>	<b>(95,436)</b>	<b>1,812</b>	<b>40,696</b>	<b>91</b>	<b>317,593</b>

See accompanying notes

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

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Six-month period ended June 30, 2017

	<b>Common shares</b>	<b>Equity component of convertible debentures</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Cash flow hedge reserve</b>	<b>Put option reserve</b>	<b>Foreign currency reserve</b>	<b>Defined benefit plan reserve</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2017</b>	251,698	6,912	16,940	(87,013)	(1,160)	—	56,769	418	244,564
Profit for the period	—	—	—	19,876	—	—	—	—	19,876
Other comprehensive income (loss)	—	—	—	—	1,223	25	(14,260)	(902)	(13,914)
Share-based payment transactions <i>[note 13(a) and 13(b)]</i>	4,411	—	1,221	—	—	—	—	—	5,632
Dividend reinvestment plan <i>[notes 13(c)]</i>	2,342	—	—	—	—	—	—	—	2,342
Dividends to shareholders <i>[note 13(c)]</i>	—	—	—	(19,004)	—	—	—	—	(19,004)
Dividends on share-based compensation awards <i>[note 13(c)]</i>	—	—	—	(785)	—	—	—	—	(785)
Dividend reinvestment plan costs <i>[notes 13(c)]</i>	(27)	—	—	—	—	—	—	—	(27)
Common share issuance <i>[note 13(a)]</i>	60,438	—	—	—	—	—	—	—	60,438
Issuance of convertible unsecured subordinated debentures <i>[note 12]</i>	—	2,981	—	—	—	—	—	—	2,981
<b>As at June 30, 2017</b>	<b>318,862</b>	<b>9,893</b>	<b>18,161</b>	<b>(86,926)</b>	<b>63</b>	<b>25</b>	<b>42,509</b>	<b>(484)</b>	<b>302,103</b>

See accompanying notes

**Ag Growth International Inc.**

**Unaudited interim condensed consolidated  
statements of cash flows**

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
<b>Operating activities</b>				
Profit before income taxes for the period	19,950	21,044	26,123	29,217
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	4,631	4,442	9,422	7,404
Amortization of intangible assets	3,362	3,817	6,502	7,308
Loss on sale of property, plant and equipment	286	30	216	12
Impairment charge	—	—	232	—
Non-cash component of interest expense	927	1,347	1,813	2,471
Non-cash investment in derivative instruments	(1,012)	(3,576)	(1,245)	(2,601)
Share-based compensation expense	2,972	2,526	4,674	4,882
Dividends receivable on equity swap	—	—	—	(100)
Employer contribution to defined benefit plans	—	(78)	(4)	(232)
Defined benefit plan expense	34	83	68	219
Contingent consideration	849	361	948	713
Equipment provided to vendor	—	(209)	(115)	(345)
Non-cash transaction costs	1,360	2,731	1,360	2,731
Translation loss (gain) on foreign exchange	5,621	(7,757)	13,027	(10,733)
	<b>38,980</b>	<b>24,761</b>	<b>63,021</b>	<b>40,946</b>
Costs related to put option	—	(48)	—	(48)
Net change in non-cash working capital balances related to operations [note 19(a)]	(15,555)	(9,331)	(39,907)	(10,488)
Non-current accounts receivable	1,165	(262)	462	(1,141)
Long-term payables	—	—	(135)	—
Settlement of EIAP obligation	(60)	—	(2,010)	—
Income taxes paid	(4,074)	(5,729)	(4,123)	(7,823)
<b>Cash provided by operating activities</b>	<b>20,456</b>	<b>9,391</b>	<b>17,308</b>	<b>21,446</b>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(8,259)	(16,256)	(16,233)	(36,595)
Acquisitions, net of cash acquired [notes 5(c), 5(d)]	(1,211)	(133,706)	(26,343)	(133,706)
Transfer from (to) cash held in trust	525	(6,661)	—	(6,661)
Transfer from (to) restricted cash	569	—	(557)	—
Proceeds from sale of property, plant and equipment	221	115	337	290
Proceeds from sale of assets held for sale	—	—	2,031	—
Development and purchase of intangible assets	(1,536)	(1,163)	(2,677)	(1,969)
Transaction costs paid and payable	25	(1,127)	2,729	(4,564)
<b>Cash used in investing activities</b>	<b>(9,666)</b>	<b>(158,798)</b>	<b>(40,713)</b>	<b>(183,205)</b>
<b>Financing activities</b>				
Issuance of long-term debt	—	107,908	—	107,908
Repayment of long-term debt	(27)	—	(87)	—
Costs related to issuance of long-term debt	—	(192)	—	(421)
Repayment of obligations under finance lease	(4)	(46)	(944)	(110)
Change in interest accrued	(3,582)	(2,472)	(7,530)	287
Issuance of convertible unsecured subordinated debentures, net of issuance costs [note 12]	97	82,307	82,293	82,307
Redemption of convertible unsecured subordinated debentures [note 12]	—	—	(77,477)	—
Common share issuance	—	—	—	60,830
Dividends paid in cash [note 13(c)]	(9,583)	(8,325)	(18,358)	(16,662)
<b>Cash provided by (used in) financing activities</b>	<b>(13,099)</b>	<b>179,180</b>	<b>(22,103)</b>	<b>234,139</b>
Net increase (decrease) in cash and cash equivalents from continuing operations	(2,309)	29,773	(45,508)	72,380
Net increase in cash and cash equivalents from discontinued operations	—	39	—	26
<b>Net increase (decrease) in cash and cash equivalents   during the period</b>	<b>(2,309)</b>	<b>29,812</b>	<b>(45,508)</b>	<b>72,406</b>
Cash and cash equivalents, beginning of period	20,782	45,368	63,981	2,774
<b>Cash and cash equivalents, end of period</b>	<b>18,473</b>	<b>75,180</b>	<b>18,473</b>	<b>75,180</b>
<b>Supplemental cash flow information</b>				
Interest paid	10,198	9,266	20,074	11,787

See accompanying notes



## **Ag Growth International Inc.**

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

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

June 30, 2018

#### **1. Organization**

Ag Growth International Inc. conducts business in the grain handling, storage and conditioning market. Ag Growth International Inc. is a listed company incorporated and domiciled in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

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

##### **[a] Statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting 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 Ag Growth International Inc. ["AGI" or the "Company"] for the three- and six-month periods ended June 30, 2018 were authorized for issuance in accordance with a resolution of the directors on August 8, 2018.

##### **[b] Basis of preparation**

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company, Ag Growth International Inc. All values are rounded to the nearest thousand. They are prepared on the historical cost basis, except for derivative financial instruments, assets held for sale and investment, 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, 2017, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same as those applied by the Company in its audited annual consolidated financial statements as at and for the year ended December 31, 2017, except for the adoption of new standards and interpretations effective as at January 1, 2018. As required by IAS 34, the nature and effect of those changes are disclosed in note 3.

##### **[c] Standards issued but not yet effective**

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

June 30, 2018

#### **Leases**

In January 2016, the IASB released IFRS 16, Leases ["IFRS 16"], to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard will be effective for the Company on January 1, 2019. Under the new standard the Company will recognize new right-of-use assets and lease liabilities for its operating leases. In addition, the nature and timing of leasing expenses will change as operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities.

On transition the Company can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Company plans to apply the modified retrospective approach and has commenced the process of identifying its leases and applying certain practical expedients, where applicable. The Company will continue to assess the potential impact of IFRS 16 on its consolidated statement of financial position, along with a change to the recognition, measurement and presentation of lease expense in the consolidated statement of earnings.

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

#### **IFRS 9, *Financial instruments* ["IFRS 9"]**

The Company adopted IFRS 9 with a date of application of January 1, 2018. The Company adopted IFRS 9 retrospectively without restatement of prior periods, other than the hedge accounting provisions of IFRS 9 that have been applied prospectively effective January 1, 2018, and accordingly elected to not restate the comparative figures. IFRS 9 introduces new requirements for the classification and measurement of financial assets, introduces a forward-looking expected loss impairment model, and amends the requirements related to hedge accounting.

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

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

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

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

The classification changes are summarized in the following table:

	IAS 39	IFRS 9	IFRS 9 Carrying value as at January 1, 2018 \$
<b>Financial assets</b>			
Cash and cash equivalents	Loans and receivables	Amortized Cost	63,981
Cash held in trust	Loans and receivables	Amortized Cost	15,182
Accounts receivable	Loans and receivables	Amortized Cost	99,017
Derivative instruments - equity swap	Fair value through profit or loss	Fair value through profit or loss	9,698
Derivative instruments - interest rate swap contracts <sup>1</sup>	Fair value through OCI	Fair value through OCI	1,768
Investment	Available-for-sale	Fair value through OCI	900
Note receivable	Loans and receivables	Amortized Cost	789
<b>Financial liabilities</b>			
Interest-bearing loans and borrowings	Loans and receivables	Amortized Cost	303,803
Trade payables and provisions	Loans and receivables	Amortized Cost	101,980
Dividends payable	Loans and receivables	Amortized Cost	3,232
Due to vendor	Loans and receivables	Amortized Cost	33,309
Convertible unsecured subordinated debentures	Loans and receivables	Amortized Cost	286,058

<sup>1</sup>Hedge accounting applied.

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

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

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

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

## **Ag Growth International Inc.**

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

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

June 30, 2018

completion of the performance obligations. As at June 30, 2018, \$1,546, net of foreign exchange, has been recorded into income upon the Company's completion of its performance obligations in accordance with IFRS 15.

The Company changed its accounting policy for revenue recognition upon adoption of IFRS 15 as detailed below.

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

#### *Sale of goods and services*

Revenue from the sale of goods and/or services is in general recognized when the Company satisfies a performance obligation and control of the goods and/or service is transferred from Seller to Buyer. A performance obligation is a good or service or a series of goods and services that are distinct. A contract with various distinct goods and services are considered to have multiple performance obligations for which revenue is recognized as each performance obligation is satisfied. If a promised good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is distinct, resulting in accounting for all the goods or services promised in a contract as a single performance obligation. In determining satisfaction of the performance obligation and point of revenue recognition, the Company considers the terms of the underlying contracts including, but not limited to, shipping terms, transfer of title and risk of loss, and acceptance/performance testing. Customer deposits are recorded as a current liability when cash is received from the customer and recognized as revenue at the time product is shipped.

AGI applies bill and hold sales accounting in specific situations provided all appropriate conditions are met as of the reporting date.

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

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

#### **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

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

increasing throughout the year and normally peaking in the third quarter. As a result of these working capital movements, historically, AGI's use of its operating facilities is typically highest in the first and second quarters, begins to decline in the third quarter as collections of accounts receivable increase, and is repaid in the third or fourth quarter of each year.

#### 5. Business combinations

##### [a] Global Industries, Inc.

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

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

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

	\$
Cash and cash equivalents	1,935
Accounts receivable	15,118
Inventory	45,776
Prepaid expenses and other assets	4,773
Property, plant and equipment	74,535
Intangible assets	
Brand name	9,296
Distribution network	11,563
Order backlog	1,406
Goodwill	2,135
Deferred tax asset	1,973
Accounts payable and accrued liabilities	(20,362)
Customer deposits	(5,240)
Purchase consideration	<u>142,908</u>

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

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

The components of the purchase consideration are as follows:

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

During the three-month period ended March 31, 2018, the allocation of the purchase price to acquired assets and liabilities was finalized.

#### **[b] CMC Industrial Electronics Ltd.**

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

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

The purchase has been accounted for by the acquisition method, with the results of CMC included in the net earnings from the date of acquisition. The allocation of the purchase price to acquired assets and liabilities is preliminary, utilizing information available at the time the unaudited interim condensed consolidated financial statements were prepared. The final allocation of the purchase price may change when more information becomes available.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

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

	\$
Cash	974
Accounts receivable	947
Inventory	1,741
Prepaid expenses and other assets	201
Income taxes recoverable	127
Property, plant and equipment	142
Intangible assets	
Brand name	452
Distribution network	1,706
Goodwill	2,510
Deferred tax liability	(604)
Accounts payable and accrued liabilities	(926)
Customer deposits	(56)
Capital leases	(94)
Purchase consideration	<u>7,120</u>

During the measurement period, the fair value of acquired inventory was increased by \$94 with an offsetting decrease to goodwill in the three-month ended March 31, 2018. During the measurement period, taxes refundable to the vendor was increased by \$103 with an offsetting increase to goodwill in the three-month period ended June 30, 2018. In addition, a change in the measurement of the opening working capital calculation was identified resulting in a decrease of \$650 to due to vendor with an offsetting decrease to goodwill.

The components of the purchase consideration are as follows:

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

Transaction costs related to the CMC acquisition in the three- and six-month periods ended June 30, 2018 were an expense of \$26 and of \$5 [2017 – nil and nil] and are included in selling, general and administrative expenses.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

#### [c] Junge Control Inc.

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

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

The purchase has been accounted for by the acquisition method, with the results of Junge included in the Company's net earnings from the date of acquisition. The allocation of the purchase price to acquired assets and liabilities is preliminary, utilizing information available at the time the unaudited interim condensed consolidated financial statements were prepared. The final allocation of the purchase price may change when more information becomes available.

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

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

During the measurement period, the fair value of acquired inventory was increased by nil and \$121 with an offsetting decrease to goodwill in the three- and six-month period ended June 30, 2018.



## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

The components of the purchase consideration are as follows:

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

Transaction costs related to the Junge acquisition in the three- and six-month periods ended June 30, 2018 were \$36 and \$122 [2017 – nil and nil] and are included in selling, general and administrative expenses.

The contingent consideration is based on Junge meeting predetermined earnings targets in 2018. A maximum payment of \$2,509 would be required if Junge meets the targets. The Company believes the likelihood of the maximum payment is high. The present value of the contingent consideration was determined using a 5% discount rate. \$2,318 was recorded in current liabilities as at the date of acquisition.

During the six-month period ended June 30, 2018, the amount due to vendor of \$19,258 was paid in full.

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

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

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

Terms of the purchase agreement included \$6.0 million payable upon closing and \$3.0 million payable in annual instalments, contingent on certain conditions. The \$3.0 million is expected to be expensed over the three year period. In addition, contingent consideration of \$1.0 million was payable based on an earnings target. In April 2018, the purchase agreement was amended such that payment of the first annual instalment of \$1.0 million and the contingent consideration of \$1.0 million was guaranteed. During the six-month period ended June 30, 2018, \$1,360 related to certain terms of the purchase agreement was expensed.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

The purchase has been accounted for by the acquisition method, with the results of Danmare included in the net earnings from the date of acquisition. The fair value of the assets acquired and the liabilities assumed have been determined on a provisional basis utilizing information available at the time of the acquisition. Additional information is being gathered to finalize these provisional measurements, particularly with respect to intangible assets, working capital, and deferred income 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.

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

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

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

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

From the date of acquisition, Danmare contributed to the results \$2,760 of revenue and \$351 of net loss. If the acquisition had taken place as at January 1, 2018, revenue from continuing operations in 2018 would have increased by an additional \$1,057 and profit from continuing operations in 2018 would have increased by an additional \$129.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

The components of the purchase consideration are as follows:

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

During the three- and six-month ended June 30, 2018, the cash held in trust and the amounts due to vendor were paid.

Transaction costs related to the Danmare acquisition in the three- and six-month periods ended June 30, 2018 were \$73 and \$143 [2017 – nil and nil] and are included in selling, general and administrative expenses.

#### 6. Accounts receivable

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

	June 30, 2018	December 31, 2017
	\$	\$
Total accounts receivable	<b>147,953</b>	100,863
Less allowance for doubtful accounts	<b>(1,405)</b>	(1,846)
	<b>146,548</b>	99,017
Non-current accounts receivable	<b>3,718</b>	4,180
<b>Total accounts receivable, net</b>	<b>150,266</b>	103,197
<b>Of which</b>		
Neither impaired nor past due	<b>117,797</b>	74,382
Not impaired and past the due date as follows		
Within 30 days	<b>17,638</b>	15,419
31 to 60 days	<b>5,737</b>	4,538
61 to 90 days	<b>2,533</b>	2,229
Over 90 days	<b>7,966</b>	8,475
Less allowance for doubtful accounts	<b>(1,405)</b>	(1,846)
<b>Total accounts receivable, net</b>	<b>150,266</b>	103,197

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

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

	June 30, 2018	December 31, 2017
	\$	\$
<b>Balance, beginning of period</b>	<b>304,543</b>	209,457
Additions	<b>16,233</b>	51,299
Acquisition <i>[note 5(d)]</i>	<b>237</b>	76,578
Disposals	<b>(553)</b>	(704)
Classification as held for sale <i>[note 10]</i>	<b>(786)</b>	(3,522)
Depreciation	<b>(9,422)</b>	(16,471)
Impairment <i>[note 10]</i>	<b>(226)</b>	(820)
Exchange differences	<b>1,886</b>	(11,274)
<b>Balance, end of period</b>	<b>311,912</b>	304,543

#### 8. Goodwill

	June 30, 2018	December 31, 2017
	\$	\$
<b>Balance, beginning of period</b>	<b>234,669</b>	227,450
Acquisition <i>[note 5]</i>	<b>3,475</b>	11,770
Exchange differences	<b>2,509</b>	(4,551)
<b>Balance, end of period</b>	<b>240,653</b>	234,669

#### 9. Intangible assets

	June 30, 2018	December 31, 2017
	\$	\$
<b>Balance, beginning of period</b>	<b>218,156</b>	197,215
Internal development	<b>2,677</b>	4,910
Acquisition <i>[note 5]</i>	<b>3,430</b>	33,011
Amortization	<b>(6,502)</b>	(13,003)
Impairment	—	(395)
Exchange differences	<b>3,013</b>	(3,582)
<b>Balance, end of period</b>	<b>220,774</b>	218,156

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

#### 10. Assets held for sale

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

In 2017, AGI built a new facility in Candido Mota, Sao Paulo, Brazil, and transferred all production activities from its existing facility in Assis, Sao Paulo, Brazil. AGI concluded that the land, grounds, and building at the existing Assis, Sao Paulo, Brazil facility met the definition of assets held for sale and was recorded at the lower of cost and fair value. As at June 30, 2018, the carrying amount of the assets held for sale is \$724.

During the period ended March 31, 2018, buildings in Oakland Coles County, Illinois and Latimer, Iowa, met the definition of assets held for sale. An impairment charge of \$226 was recorded and the carrying amount of \$786 was recorded as assets held for sale. As at June 30, 2018, the carrying amount of the assets held for sale is \$803.

#### 11. Long-term debt

	Interest rate %	Maturity	June 30, 2018 \$	December 31, 2017 \$
<b>Current portion of long-term debt</b>				
Equipment financing	nil	2021	<b>133</b>	117
<b>Non-current portion of long-term debt</b>				
Equipment financing	nil	2021	<b>339</b>	443
Series B secured notes	4.4	2025	<b>25,000</b>	25,000
Series C secured notes [U.S. dollar denominated]	3.7	2026	<b>32,920</b>	31,363
Term A secured loan	3.2	2021	<b>50,000</b>	50,000
Term B secured loan	3.4	2022	<b>40,000</b>	40,000
Revolver line [U.S. and Canadian dollar denominated]	3.7–6.3	2021	<b>165,917</b>	158,067
			<b>314,176</b>	304,873
Less deferred financing costs			<b>1,917</b>	2,014
<b>Total non-current long-term debt</b>			<b>312,259</b>	302,859
<b>Long-term debt</b>			<b>312,392</b>	302,976

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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

June 30, 2018

#### [a] Bank indebtedness

AGI has operating facilities of \$20.0 million and U.S. \$7.0 million. The facilities bear interest at prime plus 0.2% to prime plus 1.8% per annum based on performance calculations. As at June 30, 2018, there was nil [December 31, 2017 – nil] outstanding under these facilities.

#### [b] Long-term debt

AGI has revolver facilities of \$170 million from which Canadian or U.S. funds can be drawn and a \$75 million accordion feature, which as at June 30, 2018 was undrawn. The facilities bear interest at LIBOR plus 1.5% to LIBOR plus 3.0% and prime plus 0.2% to prime plus 1.8% per annum based on performance calculations. The combined effective interest rate for the three- and six-month periods ended June 30, 2018 on AGI's revolver facilities was 5.0%. As at June 30, 2018, there was \$166 million [December 31, 2017 – \$158 million] outstanding under these facilities. The facilities mature on April 4, 2021. Interest on the Term A, Term B and a portion of the revolver line has been fixed through an interest rate swap contract [note 20].

#### [c] Covenants

AGI is subject to certain financial covenants in its credit facility agreements that must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require AGI to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 3.25 and to provide debt service coverage of a minimum of 1.0. The covenant calculations exclude the convertible unsecured subordinated debentures from the definition of debt. As at June 30, 2018 and December 31, 2017, AGI was in compliance with all financial covenants.

### 12. Convertible unsecured subordinated debentures

	June 30, 2018	December 31, 2017
	\$	\$
<b>Current portion of convertible unsecured subordinated debentures</b>	—	86,155
<b>Non-current portion of convertible unsecured subordinated debentures</b>		
Principal amount	299,250	213,000
Equity component	(11,794)	(14,212)
Accretion	4,103	7,498
Financing fees, net of amortization	(9,106)	(6,383)
<b>Total non-current convertible unsecured subordinated debentures</b>	<b>282,453</b>	<b>199,903</b>
<b>Convertible unsecured subordinated debentures</b>	<b>282,453</b>	<b>286,058</b>

## **Ag Growth International Inc.**

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On December 6, 2017, the Company entered into an agreement with a syndicate of underwriters pursuant to which AGI issued, on a "bought deal" basis, \$75 million aggregate principal amount of convertible unsecured subordinated debentures [the "2018 Debentures"] at a price of \$1,000 per 2018 Debenture. AGI also granted the underwriters an over-allotment option, exercisable in whole or in part for a period of 30 days following closing, to purchase up to an additional \$11.25 million aggregate principal amount of 2018 Debentures. The over-allotment option was fully exercised, and accordingly, the total gross proceeds to AGI were \$86.25 million. On January 3, 2018, the Company closed the offering of \$75 million aggregate principal amount of the 2018 Debentures. On January 9, 2018, the Company closed the over-allotment option.

The 2018 Debentures bear interest at 4.50% per annum, payable semi-annually in arrears on June 30 and December 31 each year commencing June 30, 2018. The 2018 Debentures has a maturity date of December 31, 2022.

The 2018 Debentures are convertible at the holder's option at any time prior to the close of business on the earlier of the business day immediately preceding the maturity date and the date specified by AGI for redemption of the 2018 Debentures into fully paid and non-assessable common shares of the Company at a conversion price of \$88.15 per common share, being a conversion rate of approximately 11.3443 common shares for each \$1,000 principal amount of the 2018 Debentures.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the 2018 Debentures, the Company recorded a liability of \$86,250 less related offering costs of \$3,957 and the estimated fair value of the holder's conversion option. The liability component has been accreted using the effective interest rate method, and during the six-month periods ended June 30, 2018, the Company recorded accretion of \$179, non-cash interest expense relating to finance costs of \$339 and interest expense on the 4.50% coupon of \$2,524. The estimated fair value of the holder's option to convert the 2018 Debentures to common shares in the total amount of \$2,063 has been separated from the fair value of the liability and is included in shareholders' equity, net of income taxes of \$530 and its pro rata share of financing costs of \$100.

The net proceeds of the offering was used to partially fund the redemption of the Company's 5.25% convertible unsecured subordinated debentures due December 18, 2018.

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

## Ag Growth International Inc.

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#### 13. Equity

##### [a] Common shares

	Shares	Amount
	#	\$
<b>Balance, January 1, 2017</b>	14,781,643	251,698
Dividend reinvestment shares issued from treasury	93,976	4,909
Settlement of Equity incentive award plan ["EIAP"] obligation	133,570	5,300
Issuance of common shares	1,150,000	61,224
Convertible unsecured subordinated debentures	1,727	95
Dividend reinvestment plan costs	—	(27)
<b>Balance, December 31, 2017</b>	16,160,916	323,199
Dividend reinvestment shares issued from treasury	26,132	1,384
Settlement of EIAP obligation	129,487	5,230
Convertible unsecured subordinated debentures	157,781	8,678
<b>Balance, June 30, 2018</b>	<b>16,474,316</b>	<b>338,491</b>

##### [b] Contributed surplus

	Six-month period ended	Year ended
	June 30, 2018	December 31, 2017
	\$	\$
<b>Balance, beginning of period</b>	<b>20,956</b>	16,940
Equity-settled director compensation <i>[note 14[b]]</i>	<b>201</b>	361
Dividends on EIAP	<b>587</b>	1,302
Obligation under EIAP <i>[note 14[a]]</i>	<b>4,473</b>	7,698
Settlement of EIAP obligation	<b>(5,614)</b>	(5,345)
<b>Balance, end of period</b>	<b>20,603</b>	20,956



## **Ag Growth International Inc.**

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

In the three-month period ended June 30, 2018, the Company declared dividends of \$9,885 or \$0.60 per common share [2017 – \$9,648 or \$0.60 per common share] and dividends on share compensation awards of \$357 [2017 – \$246]. In the six-month period ended June 30, 2018, the Company declared dividends of \$19,742 or \$1.20 per common share [2017 – \$19,004 or \$1.20 per common share] and dividends on share compensation awards of \$587 [2017 – \$785]. For the three- and six-month periods ended June 30, 2017, 5,907 and 26,132 common shares were issued to shareholders from treasury under the dividend reinvestment plan [the “DRIP”]. In the three-month period ended June 30, 2018, dividends paid to shareholders of \$9,583 [2017 – \$8,325] were financed from cash on hand and \$299 [2017 – \$1,323] by the DRIP. In the six-month period ended June 30, 2018, dividends paid to shareholders were financed \$18,358 [2017 – \$16,662] from cash on hand and \$1,384 [2017 – \$2,342] by the DRIP.

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

AGI’s dividend policy is to pay cash dividends on or about the 15<sup>th</sup> of each month to shareholders of record on the last business day of the previous month. The Company’s current monthly dividend rate is \$0.20 per common share. Subsequent to June 30, 2018, the Company paid previously declared dividends of \$0.20 per common share with record dates of June 29, 2018 and July 31, 2018.

#### **14. Share-based compensation plans**

##### **[a] EIAP**

During the three-month period ended June 30, 2018, nil [2017 – nil] Restricted Awards [“RSU”] and nil [2017 – nil] Performance Awards were granted. As at June 30, 2018, a total of 406,006 [December 31, 2017 – 336,421] Restricted Awards and 440,672 [December 31, 2017 – 406,789] Performance Awards had been granted under the plan. The fair values of the Restricted Awards and the Performance Awards were based on the share price as at the grant date and the assumption that there will be no forfeitures.

During the three- and six-month periods ended June 30, 2018, AGI expensed \$2,875 and \$4,473 for the EIAP [2017 – \$2,444 and \$4,711].

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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June 30, 2018

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

	EIAP	
	Restricted Awards	Performance Awards
	#	#
<b>Outstanding, January 1, 2017</b>	223,030	247,500
Granted	9,921	39,658
Vested	(72,942)	(73,983)
Forfeited	(3,530)	—
<b>Balance, December 31, 2017</b>	156,479	213,175
Granted	68,585	33,883
Vested	(52,250)	(73,281)
Forfeited	(2,500)	—
<b>Balance, June 30, 2018</b>	<b>170,314</b>	<b>173,777</b>

There is no exercise price on the EIAP awards.

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

For the three- and six-month periods ended June 30, 2018, an expense of \$97 and \$201 [2017 – \$82 and \$171] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 120,000, subject to adjustment in lieu of dividends, if applicable. For the three- and six-month periods ended June 30, 2018, 1,707 and 3,653 [2017 – 1,399 and 3,148] common shares were granted under the DDCP and as at June 30, 2018, a total of 73,985 [2017 – 66,790] common shares had been granted under the DDCP and 18,436 [2017 – 18,436] common shares had been issued.

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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June 30, 2018

#### 15. Other expenses (income)

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
<b>[a] Other operating expense (income)</b>				
Net loss on disposal of property, plant and equipment	286	30	216	12
Other	(1,471)	(4,157)	(2,185)	(3,535)
	<b>(1,185)</b>	<b>(4,127)</b>	<b>(1,969)</b>	<b>(3,523)</b>
<b>[b] Finance expense (income)</b>				
Interest expense (income) from banks	(44)	44	(97)	(24)
Loss (gain) on foreign exchange	4,137	(5,210)	9,407	(5,945)
	<b>4,093</b>	<b>(5,166)</b>	<b>9,310</b>	<b>(5,969)</b>
<b>[c] Finance costs</b>				
Interest on overdrafts and other finance costs	533	48	219	223
Interest, including non-cash interest, on debts and borrowings	3,482	4,069	7,301	6,528
Interest, including non-cash interest, on convertible unsecured subordinated debentures [note 12]	4,800	4,999	9,696	8,701
	<b>8,815</b>	<b>9,116</b>	<b>17,216</b>	<b>15,452</b>
<b>[d] Cost of goods sold</b>				
Depreciation	4,187	3,996	8,607	6,753
Amortization of intangible assets	691	1,488	1,211	3,446
Warranty provision (recovery)	(80)	357	237	299
Cost of inventory recognized as an expense	179,916	151,895	326,943	252,477
	<b>184,714</b>	<b>157,736</b>	<b>336,998</b>	<b>262,975</b>
<b>[e] Selling, general and administrative expenses</b>				
Depreciation	444	446	815	651
Amortization of intangible assets	2,671	2,329	5,291	3,862
Minimum lease payments recognized as an operating lease expense	1,047	757	1,799	1,428
Transaction costs	2,987	4,231	3,291	6,212
Selling, general and administrative	36,619	34,699	74,715	65,296
	<b>43,768</b>	<b>42,462</b>	<b>85,911</b>	<b>77,449</b>
<b>[f] Employee benefits expense</b>				
Wages and salaries	58,763	48,242	110,920	87,992
Share-based payment transaction expense [notes 14[a] and [b]]	2,972	2,526	4,674	4,882
Pension costs	1,281	1,212	2,550	2,135
	<b>63,016</b>	<b>51,980</b>	<b>118,144</b>	<b>95,009</b>
Included in cost of goods sold	42,479	32,218	76,740	59,307
Included in selling general and administrative expense	20,537	19,762	41,404	35,702
	<b>63,016</b>	<b>51,980</b>	<b>118,144</b>	<b>95,009</b>

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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June 30, 2018

#### 16. Retirement benefit plans

During the three- and six-month periods ended June 30, 2018, the expense associated with the Company's defined pension benefit was \$34 and \$68, respectively [2017 – \$83 and \$219]. At June 30, 2018, the accrued pension benefit asset (liability) was \$239 [December 31, 2017 – (\$182)], which is included in other assets (liabilities) on the unaudited interim condensed consolidated statements of financial position.

#### 17. Income taxes

The major components of income tax expense for the three- and six-month periods ended June 30, 2018 and 2017 are as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
<b>Profit from continuing operations before income taxes</b>	<b>19,950</b>	21,044	<b>26,123</b>	29,217
Tax expense at the statutory rate of 27% [2017 – 27%]	<b>5,386</b>	5,682	<b>7,053</b>	7,889
Tax rate changes	<b>184</b>	(36)	<b>228</b>	(67)
Additional deductions allowed in a foreign jurisdiction	—	(112)	—	(273)
Tax losses not recognized as a deferred tax asset	<b>497</b>	951	<b>1,345</b>	1,772
Foreign rate differential	<b>(789)</b>	134	<b>(1,459)</b>	269
Non-deductible EIAP expense	<b>10</b>	125	<b>97</b>	255
State income taxes, net of federal tax benefit	<b>257</b>	66	<b>519</b>	208
Unrealized foreign exchange loss (gain)	<b>1,054</b>	(1,328)	<b>2,397</b>	(1,502)
IFRS 15 transition adjustment [note 3]	<b>(19)</b>	—	<b>(414)</b>	—
Change in uncertain tax position	—	—	<b>(2,305)</b>	—
Permanent differences and others	<b>578</b>	834	<b>927</b>	816
<b>Tax expense at the effective rate of 32.1% [2017 – 32.1%]</b>	<b>7,158</b>	6,316	<b>8,388</b>	9,367

## Ag Growth International Inc.

### Notes to unaudited interim condensed consolidated financial statements

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June 30, 2018

#### 18. Profit per share

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Net profit from continuing operations	<b>12,792</b>	14,728	<b>17,735</b>	19,850
Net profit from discontinued operations	—	21	—	26
Dilutive effect of 2018 convertible debenture interest	<b>901</b>	—	—	—
Dilutive effect of 2015 convertible debenture interest	<b>914</b>	901	—	—
Dilutive effect of 2014 convertible debenture interest	—	663	—	—
Dilutive effect of 2017 convertible debenture interest	—	948	—	948
Dilutive effect of 2013 convertible debenture interest	—	1,144	—	—
Net profit attributable to shareholders for basic and diluted profit per share	<b>14,607</b>	18,405	<b>17,735</b>	20,824
Basic weighted average number of shares	<b>16,473,244</b>	16,070,380	<b>16,437,291</b>	15,733,158
Dilutive effect of DDCP	<b>53,861</b>	46,970	<b>52,895</b>	46,103
Dilutive effect of RSU	<b>171,865</b>	172,085	<b>177,052</b>	174,984
Dilutive effect of 2018 convertible debentures	<b>1,568,180</b>	—	—	—
Dilutive effect of 2015 convertible debentures	<b>1,250,000</b>	1,250,000	—	—
Dilutive effect of 2014 convertible debentures	—	789,234	—	—
Dilutive effect of 2017 convertible debentures	—	1,033,551	—	1,033,551
Dilutive effect of 2013 convertible debentures	—	1,568,180	—	—
Diluted weighted average number of shares	<b>19,517,150</b>	20,930,400	<b>16,667,238</b>	16,987,796
Profit per share from continuing operations				
Basic	<b>0.78</b>	0.92	<b>1.08</b>	1.26
Diluted	<b>0.75</b>	0.88	<b>1.06</b>	1.22
Profit per share from discontinued operations				
Basic	<b>0.00</b>	0.00	<b>0.00</b>	0.00
Diluted	<b>0.00</b>	0.00	<b>0.00</b>	0.00
Profit per share				
Basic	<b>0.78</b>	0.92	<b>1.08</b>	1.26
Diluted	<b>0.75</b>	0.88	<b>1.06</b>	1.22

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#### 19. Statement of cash flows

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

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Accounts receivable	(20,687)	(10,637)	(48,082)	(28,192)
Inventory	3,967	(774)	(20,498)	(6,086)
Prepaid expenses and other assets	(922)	73	(3,296)	(3,744)
Accounts payable and accrued liabilities	8,967	7,253	24,764	25,378
Customer deposits	(6,800)	(5,603)	6,968	1,857
Provisions	(80)	357	237	299
	<b>(15,555)</b>	<b>(9,331)</b>	<b>(39,907)</b>	<b>(10,488)</b>

##### [b] Reconciliation of liabilities arising from financing activities

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

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	Non-cash changes						June 30, 2017
	December 31, 2016	Cash flows	Foreign exchange	Accretion	Amortization	Fair value	
	\$	\$	\$	\$	\$	\$	
Long-term debt	206,849	107,487	(5,946)	—	314	—	<b>308,704</b>
Convertible unsecured subordinated debentures	201,210	82,307	—	1,097	1,060	(4,290)	<b>281,384</b>
Finance leases	1,732	(110)	—	—	—	—	<b>1,622</b>
Derivatives held to hedge long-term borrowings	715	—	—	—	—	(814)	<b>(99)</b>
<b>Total liabilities from financing activities</b>	<b>410,506</b>	<b>189,684</b>	<b>(5,946)</b>	<b>1,097</b>	<b>1,374</b>	<b>(5,104)</b>	<b>591,611</b>

## 20. Financial instruments and financial risk management

### [a] Foreign exchange contracts

To mitigate exposure to the fluctuating rate of exchange, AGI may enter into foreign exchange forward contracts and denominate a portion of its debt in U.S. dollars. As at June 30, 2018, AGI's U.S. dollar denominated debt totaled \$199 million.

The Company had no outstanding foreign exchange forward contracts at June 30, 2018.

### [b] Interest rate swap contracts

The Company enters into interest rate swap contracts to manage its exposure to fluctuations in interest rates on its core borrowings. The interest rate swap contracts are derivative financial instruments designated as cash flow hedges and changes in the fair value were recognized as a component of other comprehensive income to the extent that it has been assessed to be effective. Through these contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rates between 3.6% and 4.3%. The underlying risk of the interest rate swaps is identical to the hedged risk component of the Company's borrowings. Therefore, the Company has established a hedge ratio of 1:1 for its hedging relationships. The notional amounts are \$140,038 in aggregate, resetting the last business day of each month. The contracts expire between May 2019 and May 2022.

During the three- and six-month periods ended June 30, 2018, a gain of \$136 and \$726 [2017 – \$634 and \$814] was recorded in other comprehensive income (loss).

## **Ag Growth International Inc.**

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

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#### **[c] Equity swap**

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

As at June 30, 2018, the equity swap agreement covered 590,000 common shares of the Company at a price of \$36.95, and the agreement matures on April 6, 2021.

As at June 30, 2018, the unrealized gain on the equity swap was \$10,951, and in the three- and six-month periods ended June 30, 2018, the Company has recorded a gain in the unaudited interim condensed consolidated statements of income of \$1,012 and \$1,245 [2017 – loss of \$3,576 and \$2,601].

#### **[d] Fair value**

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

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



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	Level	June 30, 2018		December 31, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	1	18,473	18,473	63,981	63,981
Cash held in trust	1	16,381	16,381	15,182	15,182
Accounts receivable	2	146,548	146,548	99,017	99,017
Derivative instruments	2	13,445	13,445	11,466	11,466
Available-for-sale investment	3	—	—	900	900
Investment	3	900	900	—	—
Note receivable	2	715	715	789	789
Assets held for sale	2	1,527	1,527	2,842	2,842
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings	2	312,450	309,949	303,978	304,306
Trade payables and provisions	2	117,067	117,067	101,980	101,980
Dividends payable	2	3,295	3,295	3,232	3,232
Due to vendor	2	16,155	16,155	33,309	33,309
Contingent consideration	3	10,151	10,151	9,037	9,037
Convertible unsecured subordinated debentures	2	282,453	309,788	286,058	314,129

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

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

- The fair value of unquoted instruments and loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.
- AGI includes its investment, which is in a private company, in Level 3 of the fair value hierarchy as it trades infrequently and has little price transparency. AGI reviews the fair value of this investment at each reporting period and when recent arm's length market transactions are not available, management's estimate of fair value is determined using a market approach based on external information and observable conditions where possible, supplemented by internal analysis as required.

## Ag Growth International Inc.

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#### 21. Related party disclosures

Burnet, Duckworth & Palmer LLP provides legal services to the Company, and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. During the three- and six-month period ended June 30, 2018, the total cost of these legal services related to general matters was \$10 and \$574 [2017 – \$15 and \$261], and \$50 is included in accounts payable and accrued liabilities as at June 30, 2018.

Salthammer Inc. provides consulting services to the Company and a Director of AGI is the owner of Salthammer Inc. During the three- and six-month period ended June 30, 2018, the total cost of these consulting services related to AGI's international plant expansion project was \$14 and \$80 [2017 – \$45 and \$104], and nil is included in accounts payable and accrued liabilities as at June 30, 2018.

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

#### 22. Reportable business segment

The Company manufactures agricultural equipment with a focus on grain handling, storage and conditioning products. As at June 30, 2018, aggregation of operating segments was applied to determine that the Company had only one reportable segment. The primary factors considered in the application of the aggregation criteria included the similar long-term average gross margins and growth rates across the segments, the nature of the products manufactured by the segments all being related to the handling, storage and conditioning of agricultural commodities, and the similarity in the production processes of the segments.

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

	Three-month period ended		Six-month period ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
Canada	<b>102,920</b>	89,661	<b>176,242</b>	154,982
United States	<b>98,573</b>	91,668	<b>185,094</b>	149,545
International	<b>58,662</b>	39,736	<b>112,485</b>	71,074
	<b>260,155</b>	221,065	<b>473,821</b>	375,601

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

## **Ag Growth International Inc.**

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

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

June 30, 2018

#### **23. 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 \$11,266 [2017 – \$2,673].

##### **[b] Letters of credit**

As at June 30, 2018, the Company has outstanding letters of credit in the amount of \$4,229 [December 31, 2017 – \$2,474].

##### **[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.

#### **24. Subsequent Event**

Effective July 26, 2018, the Company acquired 100% of the shares of Sabe Group Companies [collectively, "Sabe"] for a maximum purchase price of \$27.3 million. Based in Chauche, France, Sabe is a provider of processing solutions to the food, pet food, animal feed, fertilizer and biomass industries. Upon acquisition, \$19.8 million of the purchase price was paid to the vendors with funds available through existing credit facilities. The remaining payments are contingent on certain earnings targets and continued employment of key members of the company's senior management.