

AG GROWTH INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Dated: March 8, 2022

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, 2021. Results are reported in Canadian dollars unless otherwise stated.

This MD&A is based on the Company's audited consolidated financial statements for the year ended December 31, 2021 ("consolidated financial statements") based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), unless otherwise noted.

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

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A makes reference to certain specified financial measures, including non-IFRS financial measures, non-IFRS ratios or supplementary financial measures. Management uses these financial measures for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These specified financial measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement our financial information reported under IFRS by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

We use the following (i) non-IFRS financial measures: "adjusted earnings before interest, taxes, depreciation, and amortization ("adjusted EBITDA")", "adjusted gross margin", "funds from operations", and "adjusted profit"; (ii) non-IFRS ratios: "adjusted EBITDA margin %", "adjusted gross margin as a % of sales", "gross profit as a % of sales", "diluted adjusted profit per share" and "payout ratio"; and (iii) supplementary financial measures: "backlog", "sales by segment" and "sales by geography", "maintenance capital expenditures" and "non-maintenance capital expenditures"; to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also uses non-IFRS financial measures, non-IFRS ratios and supplementary financial measures in order to prepare annual operating budgets and to determine components of management compensation. 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 or ratio.

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

In this MD&A, we discuss the specified 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.

The following is a list of non-IFRS financial measures, non-IFRS ratios and supplementary financial measures that are referenced throughout this MD&A:

“Adjusted EBITDA” is defined as profit (loss) before income taxes before finance costs, depreciation and amortization, share of associate’s net loss, gain on remeasurement of equity investment, gain or loss on foreign exchange, non-cash share based compensation expenses, gain or loss on financial instruments, M&A expenses, change in estimate on variable considerations, other transaction and transitional costs, net loss on the sale of property, plant & equipment, gain or loss on settlement of right-of-use assets, gain on disposal of foreign operation, equipment rework and remediation and impairment. Adjusted EBITDA is a non-IFRS financial measure and its most directly comparable financial measure that is disclosed in our consolidated financial statements is profit (loss) before income taxes. Management believes adjusted EBITDA is a useful measure to assess the performance and cash flow of the Company as it excludes the effects of interest, taxes, depreciation, amortization and expenses that management believes are not reflective of the Company’s underlying business performance. Management cautions investors that 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 – Profit (loss) before income taxes and Adjusted EBITDA” for the reconciliation of adjusted EBITDA to profit (loss) before income taxes for the current and comparative periods. Adjusted EBITDA guidance is a forward-looking non-IFRS financial measure. We do not provide a reconciliation of such forward-looking measure to the most directly comparable financial measure calculated and presented in accordance with IFRS due to unknown variables and the uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value that may be inherently difficult to determine without unreasonable efforts. Guidance for adjusted EBITDA excludes the impacts of finance costs, depreciation and amortization, share of associate’s net loss, gain on remeasurement of equity investment, gain or loss on foreign exchange, non-cash share based compensation expenses, gain or loss on financial instruments, M&A expenses, change in estimate on variable considerations, other transaction and transitional costs, net loss on the sale of property, plant & equipment, gain or loss on settlement of right-of-use assets, gain on disposal of foreign operation, equipment rework and remediation and impairment.

“Adjusted EBITDA margin %” is defined as adjusted EBITDA divided by sales. Adjusted EBITDA margin % is a non-IFRS ratio because one of its components, adjusted EBITDA, is a non-IFRS financial measure. Management believes adjusted EBITDA margin % is a useful measure to assess the performance and cash flow of the Company.

“Adjusted gross margin” is defined as gross profit less equipment rework and depreciation and amortization. Adjusted gross margin is a non-IFRS financial measure and its most directly comparable financial measure that is disclosed in our consolidated financial statements is gross profit. Management believes that adjusted gross margin is a useful measure to assess the performance of the Company as it excludes the effects of equipment rework, depreciation and amortization. See "Operating Results – Gross Profit and Adjusted Gross Margin" for the reconciliation of adjusted gross margin to gross profit for the current and comparative periods.

"Adjusted Gross Margin as a % of sales" is defined as adjusted gross margin divided by sales. Adjusted gross margin as a % of sales is a non-IFRS ratio because one of its components, adjusted gross margin,

is a non-IFRS financial measure. Management believe adjusted gross margin as a % of sales is a useful measure to assess the performance of the Company.

“Adjusted profit” is defined as profit or loss adjusted for the gain or loss on foreign exchange, M&A expenses, other transaction and transitional costs, gain or loss on financial instruments, change in estimate on variable considerations, net loss on sale of property, plant and equipment, gain or loss on settlement of right-of-use assets, equipment rework and remediation, share of associate’s net loss, gain on remeasurement of equity investment, gain on disposal of foreign operations and impairment. Adjusted profit is a non-IFRS financial measures and its most directly comparable financial measure that is disclosed in our consolidated financial statements is profit or loss. Management believe adjusted profit is a useful measure to assess the performance of the Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of our underlying business performances. See "Operating Results – Diluted profit (loss) per share and diluted adjusted profit per share" for the reconciliation of adjusted profit to profit (loss) for the current and comparative periods.

“Backlogs” are defined as the total value of committed sales orders that have not yet been fulfilled that: (a) have a high certainty of being performed as a result of the existence of a purchase order, an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to the Company or its divisions, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract in respect of such work is reasonably assured. Backlog is a supplementary financial measure.

“Diluted adjusted profit per share” is defined as adjusted profit divided by the total weighted average number of outstanding diluted shares of AGI at the end of the most recently completed quarter for the relevant period. Diluted adjusted profit per share is a non-IFRS ratio because one of its components, adjusted profit, is a non-IFRS financial measure. Management believes diluted adjusted profit per share is a useful measure to assess the performance of the Company.

“Funds from operations” is defined as cash provided by operations adjusted for items not involving current cashflows, combined adjustments to adjusted EBITDA, interest expense, non-cash interest, cash taxes and maintenance capital expenditures. Funds from operations is a non-IFRS financial measure and its most directly comparable financial measure that is disclosed in our consolidated financial statements is cash provided by operations. Management believes that, in addition to cash provided by operations, funds from operations provide a useful supplemental measure in evaluating the Company’s performance and liquidity. 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. See “Operating Results – CASH PROVIDED BY OPERATIONS, FUNDS FROM OPERATIONS AND PAYOUT RATIOS” for the reconciliation of funds from operations to cash provided by operations for the current and comparative periods and see also “Adjusted EBITDA” above and “Operating results – Profit (loss) before income taxes and Adjusted EBITDA” for the "combined adjustments to Adjusted EBITDA" for the current and comparative periods.

"Gross Profit as a % of sales" is defined as gross profit divided by sales. Gross profit as a % of sales is a supplementary financial measure.

“Maintenance capital expenditures” and “non-maintenance capital expenditures” are both components of the Company’s acquisition of property, plant and equipment. Management defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels and non-maintenance capital expenditures as other investments, including cash outlays required to increase operating capacity or improve operating efficiency. Both “maintenance capital expenditures” and “non-maintenance capital expenditures” are

supplementary financial measures. Management believes that in addition to acquisition of property, plant and equipment, maintenance capital expenditures and non-maintenance capital expenditures provide a useful supplemental measure in evaluating the Company's performance. See "Operating Results - Capital Expenditures" for the reconciliation of maintenance capital expenditures and non-maintenance capital expenditures to acquisition of property plant and equipment for the current and comparative periods.

"Payout ratio" is defined as either cash provided by operations or funds from operations for the year divided into the dividends declared during the most recently completed financial year. "Payout ratio from cash provided by operations" is a supplementary financial measure. "Payout ratio from funds from operations" is a non-IFRS ratio because one of its components, funds from operations, is a non-IFRS financial measure. Management believes payout ratio is a useful measure to assess the performance and liquidity of the company and as an indicator of the sustainability of AGI's dividend.

"Sales by Segment and Geography": The sales information presented under "Sales by Segment and Geography" are supplementary financial measures used to present the Company's sales by segment, product group and geography.

SUMMARY OF RESULTS

[thousands of dollars except per share amounts]	Three-months Ended December 31			
	2021 \$	2020 \$	Change \$	Change %
Sales	327,095	227,385	99,710	44%
Adjusted EBITDA ^{[1][2]}	44,651	27,816	16,835	61%
Adjusted EBITDA Margin % ^[3]	14%	12%	N/A	2%
Loss before income taxes	(21,701)	(23,049)	1,348	N/A
Loss	(16,350)	(15,014)	(1,336)	N/A
Diluted loss per share	(0.87)	(0.80)	(0.07)	N/A
Adjusted profit ^{[1][4]}	19,127	8,734	10,393	119%
Diluted adjusted profit per share ^{[1][4]}	0.89	0.46	0.43	93%

[thousands of dollars except per share amounts]	Year Ended December 31			
	2021 \$	2020 \$	Change \$	Change %
Sales	1,198,523	1,000,130	198,393	20%
Adjusted EBITDA ^{[1][2]}	176,266	149,328	26,938	18%
Adjusted EBITDA Margin % ^[3]	15%	15%	(0)	0%
Profit (loss) before income taxes	9,383	(80,966)	90,349	N/A
Profit (loss)	10,558	(61,648)	72,206	N/A
Diluted profit (loss) per share	0.50	(3.30)	3.80	N/A
Adjusted profit ^{[1][4]}	63,242	60,255	2,987	5%
Diluted adjusted profit per share ^{[1][4]}	2.90	3.17	(0.27)	(9%)

[1] This is a non-IFRS measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.

[2] See "OPERATING RESULTS – Profit (loss) before income taxes and Adjusted EBITDA".

[3] This is a non-IFRS ratio and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS ratio.

[4] See "OPERATING RESULTS – Diluted profit (loss) per share and diluted adjusted profit per share".

Strong demand for AGI's products across most regions resulted in consolidated sales and Adjusted EBITDA increasing 44% and 61% year-over-year ('YOY'), respectively, for the three-months ended December 31, 2021. Consolidated backlogs continued to remain strong and were up 47% over December 31, 2020, with broad-based demand for AGI products across all segments and geographies.

Farm segment sales grew 28% while Adjusted EBITDA increased 78% YOY, respectively, for the three-months ended December 31, 2021, as we continue to see strong demand for both portable and permanent equipment. The demand for Farm segment equipment continues to be very robust as customers focus on securing critical products based on the increase in crop volumes. The potential for supply chain disruption continues to impact some dealers' propensity to order equipment earlier than prior years to ensure certainty of supply. Farm backlog is up 48% over the prior year as of December 31, 2021, with considerable strength across all geographies including the U.S. and Brazil.

Commercial segment sales and Adjusted EBITDA increased 60% and 64% YOY, respectively, for the three-months ended December 31, 2021, with particular strength in the U.S., Europe, Middle East and Africa ("EMEA"), and South America markets. The Food platform continues to grow in response to strong customer demand with sales increasing 13% YOY for the three-months ended December 31, 2021. Overall, the Commercial segment is seeing strong demand as backlogs are up 46% YOY with the Commercial platform and Food platform contributing 23% and 212% increases, respectively, signaling a strong outlook for Q1 2022.

Within the Farm and Commercial segments, we had notable strength in the quarter from our Brazilian operations. Brazil continued to gain momentum with sales and Adjusted EBITDA growing 271% and 639% YOY, respectively, for the three-months ended December 31, 2021. The adjusted gross margin profile for the Brazilian operation is now in-line with global corporate averages, a key milestone in the evolution of this business.

In our Digital segment (previously Technology segment, see "Description of Business Segments and Platforms"), the fourth quarter was marked by continued progress on a variety of strategic priorities intended to facilitate sales growth and adjusted gross margin stability, including production related initiatives and sales channel development. Digital segment sales increased 27% and 43% YOY for the three-months and year ended December 31, 2021.

With backlogs up 47% at the end of December 2021 and very robust quoting pipelines globally, the Company expects the strong pace of growth to continue into 2022. As a result, full year 2022 Adjusted EBITDA is expected to be at least \$200 million, representing continued growth and expansion over a record 2021 result.

UPDATE ON REMEDIATION WORK

Progress on advancing the remediation work as it relates to the previously disclosed grain bin incident continued in the quarter with remediation work completed at one of the two customer sites. The completed site is fully commissioned and operational. At the second customer site, the site of the grain bin incident, the customer has decided to remediate themselves and with other suppliers. As at the end of December 31, 2021, the Company has spent approximately \$43.4 million of the \$86.1 million total accrual, which was increased by \$8.6 million in the quarter to reflect an updated view of the costs to resolve the issue.

In 2021, two legal claims related to the bin collapse were initiated against the Company for a cumulative amount in excess of \$190 million. The Company's assessment of these claims and our legal and contractual defenses to each claim has resulted in no further provisions being recorded for these claims. The Company will fully and vigorously defend against these claims. In addition, the Company

continues to believe that any financial impact will be partially offset by insurance coverage. AGI is working with insurance providers and external advisors to determine the extent of this cost offset. Insurance recoveries, if any, will be recorded when received.

Following a thorough technical review, the previously disclosed rework accrual was increased in the quarter by \$10 million, totalling \$30 million to-date. The rework accrual is unrelated to the grain bin incident, as noted above, but it is located at the same customer site. This increase was made to supplement certain aspects of structural work that became apparent as the site was moved back into operation. This site is now operational and will remain in operation as we work directly with this customer over the next three months to complete the final remediation to the site. This increase accounts for the final work to remedy all deficiencies at this site and put this issue behind AGI.

Additional information on the provision for remediation and equipment rework can also be found in “OPERATING RESULTS — Remediation costs and equipment rework”.

COVID-19

The emergence of COVID-19 has had an adverse impact on AGI's business, including the disruption of production, our supply chain, and product delivery. While AGI experienced temporary production suspensions early in the pandemic in 2020, there were no significant production suspension or interruptions in 2021 as a result of COVID-19.

AGI operations were considered “essential services” in many regions throughout North America, highlighting the important role the Company plays in the global food supply chain. Management continues to believe post pandemic demand will be positively impacted as the world builds additional redundancy into the global food infrastructure to account for similar events in the future.

AGI is currently fully operational across all manufacturing locations globally, with no loss of productive capacity owing to COVID-19 during the fourth quarter (“Q4”) of 2021. However, headwinds stemming from the pandemic have impacted the availability and cost of raw materials required for production. Various disruptions in the supply chain including steel supply and logistics have caused significant delays on a number of projects which impacted the timing of revenue recognition in Q4 2021. In addition, potential restrictions and lockdowns in countries such as Brazil and India that have been severely impacted by COVID-19 may cause supply chain disruptions and temporary production suspensions. Our 2022 results remain subject to the effect of COVID-19 on our manufacturing facilities, markets, and customers as management continues to monitor for any emerging risks associated with COVID-19.

Additional information on the impacts of COVID-19 can also be found in “OUTLOOK” and “OPERATING RESULTS – Sales by Segment and Geography”.

EMERGING CONFLICT BETWEEN RUSSIA AND UKRAINE

AGI's exposure to Russia and Ukraine varies year-to-year, but the region generally contributes about 3% of AGI's consolidated sales annually. AGI has no production facilities in either country. Given the contributions of Brazil, India, and the rest of the EMEA region, AGI is more diversified from the region than we were in years past. While the region is important to AGI, any negative impacts would not be material to AGI overall.

AGI has identified all contracts and counterparties related to the Russia and Ukraine region. We have engaged our U.S.-based external sanctions counsel to assist in navigating the situation. Currently, we

are compiling a list of customers, projects, scope of work, and contracts with a view to vetting these through the Canadian, U.S., and E.U. sanctions. We will continue to update and monitor as these sanctions evolve in the near-term. Of note, AGI contracts in the Russia/Ukraine region have built-in force majeure provisions that provide specifically for the potential of military action, government action, and/or sanctions.

BASIS OF PRESENTATION

On January 1, 2021, the Company reorganized its business segments to better reflect changes in its operations and management structure. As a result of those changes, the Company identified three reportable segments: Farm, Commercial, and Digital. These segments are strategic business units that offer different products and services. Certain corporate overheads are allocated to the segments based on revenue as well as applicable cost drivers. Taxes and certain other expenses are managed at a consolidated level and are not allocated to the reportable operating segments. Financial information for the comparative period has been restated to reflect the new presentation. In the segment disclosure that follows, we have also included product platforms in order to provide additional information within a segment that may be useful to the reader. Specifically, our Commercial segment includes the Commercial and Food product platforms.

For the year ended December 31, 2021, the effect of foreign currency translations arising from the settlement of accounts receivables and payables recorded in a currency other than the Company's functional currency have been presented within finance income (expenses); historically, the foreign exchange impact was presented in sales and a reconciliation was made to trade sales as presented in prior MD&As. This change in presentation effectively eliminates the need for trade sales and therefore sales is presented in this MD&A with the reclassification of comparative information.

The Company's change in presentation in its consolidated financial statements was made in accordance with IAS 1 and IFRS 8. Under IFRS 8, a change in accounting policy is permitted if the change results in the financial statements providing more reliable and relevant information about the effects of transactions on the entity's financial position. In addition, IAS 1 requires an entity to reclassify its comparative information when making such changes in presentation and therefore comparative figures have been restated accordingly.

Description of Business Segments and Platforms

Farm Segment

AGI's Farm segment includes the sale of grain, seed, and fertilizer handling equipment, aeration products, grain and fuel storage solutions, and grain management technologies.

Commercial Segment

AGI's Commercial segment includes the sale of larger diameter grain storage bins, high-capacity grain handling equipment, seed and fertilizer storage and handling systems, feed handling and storage equipment, aeration products, automated blending systems, control systems, and food processing solutions.

Food Platform

The AGI Food platform falls within AGI's Commercial segment. The Food platform's end customers are involved in producing processed food and beverages of all types. AGI Food provides full process design

engineering, overall project engineering, project management services, and equipment supply. Our process design services result in close partnerships with our customers as we become involved early in the project formation stage. Our project management services include leading the customer project from conception to commissioning and working with our customers to manage all dynamics of the project throughout design and execution. We also manufacture and supply the infrastructure equipment components of these projects. Consistent with our Farm and Commercial segments, our equipment products in the Food platform address the storage, blending, and movement of ingredients involved in each process.

Digital Segment (previously Technology Segment)

AGI's Digital segment (previously Technology Segment) is built on a foundation of our Internet of Things ('IoT') products and technologies. We design, manufacture, and supply IoT hardware that monitors, operates, and automates our equipment and the collection of key operational data for our customers. This operational data is fed into intuitive and rich user interfaces, AGI SureTrack Farm and Pro, to enable our customers to operate and monitor their equipment, record operational activity, manage and market their inventories, and holistically operate their businesses. The IoT product portfolio is a mix of stand-alone hardware including weather stations, soil probes, CO2 sensors, grain temperature and moisture sensors, and field equipment data (Farmobile PUC) and is further augmented through the digitalization of AGI products. The acquisition of a controlling interest in Farmobile Inc. ("Farmobile") in 2021 further moves AGI into the middle of the data verification space required by the rapidly developing carbon and traceability markets. This strengthens our unique ability to capture machine and agronomic data across the entire farming process – from seeding through to harvest and into the broader grain supply chain. As a result, we have renamed our Technology Segment as the Digital Segment to recognize the digital evolution of this group. In addition, our digital and technology products offer monitoring, operation, measurement and blending controls, automation, hazard monitoring, embedded electronics, farm management, grain marketing and tools for agronomy, and Enterprise Resource Planning ["ERP"] for agriculture retailers and grain buyers. These products are available both as standalone offerings, as well as in combination with larger farm or commercial systems from AGI.

OUTLOOK

AGI's demand drivers are closely linked to crop production volumes, global grain movement, and global food and feed consumption levels. A relative lack of investment in food infrastructure in developing regions along with required ongoing maintenance capital requirements in developed regions provide positive demand dynamics for AGI. These core demand drivers are further augmented by increasing population, changing dietary trends and increased focus on food security infrastructure.

Farm Segment

Farm backlog increased substantially, 48% over prior year as of December 31, 2021, as inventory levels remain low at many of our dealers as a result of a strong crop yield in many parts of the U.S. and Brazil. These factors have resulted in Farm backlogs increasing 114% in the U.S., and 52% in International, over prior year as of December 31, 2021. Notwithstanding potential supply chain impact on production and delivery of our products, AGI is anticipating a strong start to 2022 in the U.S. The Canadian Prairies experienced drought conditions in 2021 resulting in a reduction of 27% in Farm backlog in Canada. We anticipate there will be an impact to the Canadian Farm segment in the first six months ("H1") of 2022 but note the current demand and backlog in the U.S. should more than offset any potential impact from the drought conditions in Canada. Supply chain challenges and logistics could have a potential impact on adjusted gross margins in the Farm segment in H1 2022.

Commercial Segment

Commercial Platform

Overall, growth continued in the Commercial segment in Q4 2021 with notable strength in the International segment with a 105% increase in sales over Q4 2020.

Adjusted gross margins in the Commercial platform are a focus as, similar to the Farm segment, securing steel and other components on a timely and cost-effective basis amid the supply chain disruptions has been challenging. Many of AGI's Commercial platform contracts include provisions to pass along some or all of the key raw material cost increases. Open sales quotes are continuously reviewed and updated for changes in market conditions. Ongoing disruption of raw material, freight, and labour could lead to ongoing pressure on adjusted gross margin performance of the platform.

Canada

While COVID-19 had a substantial impact on project activity, quoting, development, and progression across North America, the impact on projects in Western Canada continues to be more severe than in the U.S. as many growth projects continue to be placed on hold in favor of essential maintenance. Despite the challenges, quoting and project activities across the grain terminal and grain processing markets increased in Q4 2021 and the Canadian Commercial platform's backlog is up 153% over the prior year as of December 31, 2021. Management is cautiously optimistic that this market is set up for a sustained rebound in activity and results throughout 2022.

United States

Sales continue to improve in the U.S. Commercial segment as demand for commercial grain infrastructure continues to move higher with the increase in corn and soybean exports. The U.S. Commercial segment's backlogs have increased 7% over prior year as of December 31, 2021.

International

The International Commercial platform also has strong demand resulting in a 17% YOY increase in backlogs.

- **EMEA:** Momentum for EMEA remains strong with backlogs up 66% YOY. This YOY increase in part relates to some projects being deferred to future quarters due to minor supply chain interruptions, customer's on-site availability, and project readiness. We note that a portion of EMEA's backlogs is from the Russia-Ukraine region. Additional information of the potential impact of the emerging conflict between Russia and Ukraine can be found in "EMERGING CONFLICT BETWEEN RUSSIA AND UKRAINE".
- **Asia Pacific:** Backlog is down 17% YOY due to a large project landing in the prior year. This is a relatively new region for AGI and we expect lumpy results as we build the pipeline of small, medium, and large projects. This lumpy ramp up is expected and similar to our entry into other markets.
- **South America:** Backlog is down 10% due to the completion of a few large projects but a very active quoting pipeline, strong market fundamentals, and market share growth across both the Farm and Commercial segments all reinforce our positive outlook for this region.

Food Platform

Food platform backlogs increased 212% YOY driven by a combination of robust demand from the food and beverage end markets, repeat business from existing strategic customers, and onboarding of new

customers. As with all our segments, increasing prices of raw materials, labour, and foreign exchange fluctuations are closely monitored and we constantly evaluate all quotes and current projects to manage margins. Subsequent to the year ended December 31, 2021, AGI announced the acquisition of Eastern Fabricators (“Eastern”). Eastern specializes in the engineering, design, fabrication, and installation of high-quality stainless-steel equipment. Eastern operates three facilities in Canada with two in Prince Edward Island and one in Ontario and serves a range of customers across North America. Adding Eastern to the Food platform will increase capacity to help enable growth and satisfy very strong customer demand.

Digital Segment

Prior to the onset of the COVID-19 pandemic, the Digital segment’s strongest source of sales leads and conversion was industry tradeshows. With the widespread cancellation of tradeshow activity throughout the 2021 growing season, direct interaction with growers has been restricted which has hampered the pace of sales growth for the segment. In addition, ongoing chip availability issues restricted our ability to produce some pieces of IoT hardware, further restricting sales. As conditions normalize and tradeshow activity resumes, we expect this to have a positive impact on Digital segment sales and growth.

The Digital segment substantially completed several initiatives to position the business for continued growth in 2022 and diversify our sales channels to provide scalability and reduce the impact of tradeshow disruptions. In the year, we built our dealer channel for Digital products, expanded direct sales channels, automated areas of production, and increased capacity. In response to ongoing customer feedback, a new subscription model for SureTrack’s IoT hardware was introduced in Q4 2021.

Summary

AGI’s 5-6-7 strategy has led to diversification of our products, geographies, and customers which provided stability and resilience during the trade wars of 2019 and the COVID crisis in 2020 and 2021. This strategy was critical in setting up AGI to generate record results in 2021 despite the challenges of operating a global business amid difficult conditions. With backlogs up 47% at the end of December 2021 and very robust quoting pipelines globally, the Company expects the strong pace of growth to continue into 2022. As a result, full year 2022 Adjusted EBITDA is expected to be at least \$200 million, representing continued growth and expansion over a record 2021 result.

See also, "Risks and Uncertainties" and "Forward-Looking Information".

The following table presents YOY changes in the Company’s backlogs^[1]:

	Region			Overall
	Canada	United States	International	
Segments and Platforms ^[2]	%	%	%	%
Farm	(27%)	114%	52%	48%
Commercial				
Commercial Platform	153%	7%	17%	23%
Food Platform	(9%)	379%	84%	212%
Total Commercial Segment	123%	81%	22%	46%
Overall ^[2]	(3%)	100%	26%	47%

[1] This is a supplementary financial measure and is used throughout this MD&A. See “NON-IFRS and OTHER FINANCIAL MEASURES” for more information on this supplementary financial measure.

[2] Backlog for our Digital segment has been excluded as products and services are delivered on a just-in-time basis and therefore backlog is not a relevant indicator of committed sales.

The following table presents YOY changes in the Company's international backlogs^[1] further segmented by region:

Farm and Commercial Segments ^[2]	EMEA ^[3]	Asia Pacific ^[4]	South America ^[5]
	\$	\$	\$
International by region ^[1]	58%	(1%)	5%

[1] This is a supplementary financial measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on this supplementary financial measure.

[2] Backlog for our Digital segment has been excluded as products and services are delivered on a just-in-time basis and therefore backlog is not a relevant indicator of committed sales.

[3] "EMEA" is composed of Europe, Middle East and Africa.

[4] "Asia Pacific" is composed of Southeast Asia, Australia, India, and Rest of World.

[5] "South America" is composed of Latin America and Brazil.

OPERATING RESULTS [see "BASIS OF PRESENTATION"]

Sales by Segment and Geography ^[1]

Farm Segment

[thousands of dollars]	Three-months Ended December 31			
	2021	2020	Change	Change
	\$	\$	\$	%
Canada	35,635	42,616	(6,981)	(16%)
U.S.	68,283	53,201	15,082	28%
International				
EMEA	6,008	2,590	3,418	132%
Asia Pacific	11,043	3,790	7,253	191%
South America	17,526	6,253	11,273	180%
Total International	34,577	12,633	21,944	174%
Total Sales	138,495	108,450	30,045	28%

[thousands of dollars]	Year Ended December 31			
	2021	2020	Change	Change
	\$	\$	\$	%
Canada	215,692	205,731	9,961	5%
U.S.	310,345	265,137	45,208	17%
International				
EMEA	15,366	13,390	1,976	15%
Asia Pacific	27,511	20,204	7,307	36%
South America	45,833	22,322	23,511	105%
Total International	88,710	55,916	32,794	59%
Total Sales	614,747	526,784	87,963	17%

[1] The sales information in this section are supplementary financial measures and are used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on these supplementary financial measures.

Commercial Segment

[thousands of dollars]	Three-months Ended December 31			
	2021 \$	2020 \$	Change \$	Change %
Canada	10,624	15,989	(5,365)	(34%)
U.S.	53,174	39,905	13,269	33%
International				
EMEA	45,951	18,043	27,908	155%
Asia Pacific	31,367	28,938	2,429	8%
South America	40,402	10,489	29,913	285%
Total International	117,720	57,470	60,250	105%
Total Sales	181,518	113,364	68,154	60%

[thousands of dollars]	Year Ended December 31			
	2021 \$	2020 \$	Change \$	Change %
Canada	50,486	75,054	(24,568)	(33%)
U.S.	190,648	156,526	34,122	22%
International				
EMEA	112,524	91,063	21,461	24%
Asia Pacific	101,169	80,765	20,404	25%
South America	95,827	46,834	48,993	105%
Total International	309,520	218,662	90,858	42%
Total Sales	550,654	450,242	100,412	22%

We have included product groups in the table below in order to provide additional information that may be useful to the reader. The Commercial segment includes the Commercial platform and Food platform.

[thousands of dollars]	Commercial Platform Three-months Ended December 31				Food Platform Three-months Ended December 31			
	2021 \$	2020 \$	Change \$	Change %	2021 \$	2020 \$	Change \$	Change %
Canada	8,863	12,690	(3,827)	(30%)	1,761	3,299	(1,538)	(47%)
U.S.	38,784	27,689	11,095	40%	14,390	12,216	2,174	18%
International								
EMEA	40,969	14,147	26,822	190%	4,982	3,896	1,086	28%
Asia Pacific	30,295	28,606	1,689	6%	1,072	332	740	223%
South America	40,354	10,489	29,865	285%	48	-	48	n/a
Total International	111,618	53,242	58,376	110%	6,102	4,228	1,874	44%
Total Sales ^[1]	159,265	93,621	65,644	70%	22,253	19,743	2,510	13%

[thousands of dollars]	Commercial Platform				Food Platform			
	Year Ended December 31				Year Ended December 31			
	2021	2020	Change	Change	2021	2020	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Canada	39,126	62,161	(23,035)	(37%)	11,360	12,893	(1,533)	(12%)
U.S.	147,002	129,228	17,774	14%	43,646	27,298	16,348	60%
International								
EMEA	93,438	77,611	15,827	20%	19,086	13,452	5,634	42%
Asia Pacific	99,859	77,009	22,850	30%	1,310	3,756	(2,446)	(65%)
South America	95,779	46,834	48,945	105%	48	-	48	n/a
Total International	289,076	201,454	87,622	43%	20,444	17,208	3,236	19%
Total Sales ^[1]	475,204	392,843	82,361	21%	75,450	57,399	18,051	31%

[1] The aggregate of the Total Sales from the Commercial Platform and Food Platform equal the Total Sales of the Commercial Segment.

Digital Segment

[thousands of dollars]	Three-months Ended December 31			
	2021	2020	Change	Change
	\$	\$	\$	%
Canada	471	353	118	33%
U.S.	6,593	5,134	1,459	28%
International				
EMEA	6	3	3	100%
Asia Pacific	10	-	10	n/a
South America	2	81	(79)	(98%)
Total International	18	84	(66)	(79%)
Total Sales	7,082	5,571	1,511	27%

[thousands of dollars]	Year Ended December 31			
	2021	2020	Change	Change
	\$	\$	\$	%
Canada	1,577	1,617	(40)	(2%)
U.S.	31,450	21,150	10,300	49%
International				
EMEA	9	121	(112)	(93%)
Asia Pacific	78	-	78	n/a
South America	8	216	(208)	(96%)
Total International	95	337	(242)	(72%)
Total Sales	33,122	23,104	10,018	43%

Sales by Geography

[thousands of dollars]	Three-months Ended December 31			
	2021 \$	2020 \$	Change \$	Change %
Canada	46,730	58,958	(12,228)	(21%)
U.S.	128,050	98,240	29,810	30%
International				
EMEA	51,965	20,636	31,329	152%
Asia Pacific	42,420	32,728	9,692	30%
South America	57,930	16,823	41,107	244%
Total International	152,315	70,187	82,128	117%
Total Sales	327,095	227,385	99,710	44%

[thousands of dollars]	Year Ended December 31			
	2021 \$	2020 \$	Change \$	Change %
Canada	267,755	282,402	(14,647)	(5%)
U.S.	532,443	442,813	89,630	20%
International				
EMEA	127,899	104,574	23,325	22%
Asia Pacific	128,758	100,969	27,789	28%
South America	141,668	69,372	72,296	104%
Total International	398,325	274,915	123,410	45%
Total Sales	1,198,523	1,000,130	198,393	20%

Canada

- Sales in Canada decreased 21% and 5% YOY for the three-months and year ended December 31, 2021, respectively
 - Farm segment sales decreased 16% and increased 5% YOY for the three-months and year ended December 31, 2021, respectively, as result of a change in management estimate on variable considerations on a number of contracts. Backlog in Canada decreased 27% YOY as at December 31, 2021 as many parts of Western Canada experienced drought conditions in 2021 that impacted demand for storage and handling equipment. We anticipate that the drought in Western Canada will have an impact on H1 2022 which will be mitigated by growth in Eastern Canada.
 - Digital segment sales increased 33% but decreased 2% YOY for the three-months and year ended December 31, 2021, respectively, as we continue to expand our Digital products in the Canadian market. We anticipate continued growth in Canada for the Digital segment.
 - Commercial segment sales decreased 34% and 33% YOY for the three-months and year ended December 31, 2021, respectively. Specifically:
 - Commercial platform sales in Canada were down 30% and 37% YOY for the three-months and year ended December 31, 2021, respectively, as COVID-19 continues to impact projects of all sizes in both grain terminal and fertilizer sectors. Increased quoting activities in Q4 2021 for grain terminal projects have increased backlogs significantly as compared to December 31, 2020. Management anticipates further recovery in the Canadian commercial platform in 2022.

- Food platform sales were down 47% and 12%YOY for the three-months and year ended December 31, 2021, respectively, as resources were shifted to support the demands in the US and International markets.

United States

- Sales in the U.S. increased 30% and 20% YOY, for the three-months and year ended December 31, 2021 respectively:
 - Farm segment sales increased 28% and 17% YOY for the three-months and year ended December 31, 2021, respectively as a result of continued demand for storage and portable equipment. Demand for storage and portable equipment remains strong with many dealers reporting low inventory levels. In addition, a sustained focus on expanding our U.S. dealer base has also helped build demand for AGI products within a key sales channel for the segment. Together, these factors have resulted in a 114% increase in U.S. Farm backlog as compared to December 31, 2020.
 - U.S. Digital segment sales increased 28% and 49%YOY for the three-months and year ended December 31, 2021, respectively, as SureTrack continues to expand its dealer network.
 - U.S. Commercial segment sales increased 33% and 22% YOY for the three-months and year ended December 31, 2021, respectively. Specifically:
 - Commercial platform sales increased 40% in Q4 YOY largely due to timing on key projects. We anticipated this sales growth due to the release of projects that were impacted by supply chain delays. This resulted in 14% overall growth for the year ended December 31, 2021.
 - U.S. Food platform sales grew 18% in Q4 YOY as a result of continued demand in the petfood market a contributor to overall growth of 60% growth in 2021. Our efforts to develop strategic relationships with key partners for the past several years are now crystalizing with larger projects wins in this group.

International

- International sales increased 117% and 45% YOY, for the three-months and year ended December 31, 2021 respectively:
 - Farm segment increased 174% and 59%YOY for the three-months and year ended December 31, 2021, respectively, with Asia Pacific and South America experiencing the largest increases in portable and permanent handling products.
 - Commercial segment sales increased 105% and 42% YOY for the three-months and year ended December 31, 2021, respectively. Specifically:
 - Commercial platform sales increased 110% and 43% YOY for the three-months and year ended December 31, 2021, respectively, despite the impact of COVID-19 causing project delays. Both EMEA and South America regions continue to see significant sales increases, 190% and 285% respectively, over Q4 2020 as favourable macroeconomic conditions continue to stimulate commercial infrastructure investment; and
 - Food platform sales increased 44% and 19% YOY for the three-months and year ended December 31, 2021, respectively, mainly due to timing of projects as continued demand has driven up the backlog by 84% YOY.
 - Sales in Brazil and India increased 271% and 3%, respectively, from Q4 2020.
 - Brazil continued to see very strong demand for AGI products and systems across both the Farm and Commercial segments.
 - Sales continue to grow in India and are up 10% YOY for the year ended December 31, 2021.

DETAILED OPERATING RESULTS

[thousands of dollars]	Three-months Ended		Year Ended	
	December 31		December 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Sales	327,095	227,385	1,198,523	1,000,130
Cost of goods sold				
Cost of inventories	232,998	157,013	834,402	678,813
Equipment rework and remediation	18,600	30,000	26,100	80,000
Depreciation and amortization	9,602	7,240	34,006	28,527
	261,200	194,253	894,508	787,340
Selling, general and administrative expenses				
Selling, general & administrative expenses ^[1]	64,752	45,338	213,208	183,013
Mergers and acquisitions expense ^[2]	962	390	3,035	1,736
Other transaction and transitional costs ^[3]	4,763	3,249	12,058	14,326
Depreciation and amortization	6,772	6,716	28,043	26,744
	77,249	55,693	256,344	225,819
Other operating expense (income)				
Net loss on disposal of property, plant and equipment	(60)	68	23	187
Net (gain) loss on settlement of lease liability	(28)	2	(17)	(3)
Net gain on disposal of foreign operations	-	-	(898)	-
Net (gain) loss on financial instruments	(1,929)	(1,975)	(1,382)	14,502
Other	(1,287)	(1,420)	(5,025)	(4,152)
	(3,304)	(3,325)	(7,299)	10,534
Finance costs	11,948	11,938	43,599	46,692
Finance expense	145	(9,072)	2,615	1,286
Impairment charge ^[4]	1,558	-	5,074	5,111
Share of associate's net loss ^[5]	-	947	1,077	4,314
Gain on remeasurement of equity investment ^[5]	-	-	(6,778)	-
Profit (loss) before income taxes	(21,701)	(23,049)	9,383	(80,966)
Income tax recovery	(5,351)	(8,035)	(1,175)	(19,318)
Profit (loss) for the year	(16,350)	(15,014)	10,558	(61,648)
Profit (loss) per share				
Basic	(0.87)	(0.80)	0.56	(3.30)
Diluted	(0.87)	(0.80)	0.50	(3.30)

[1] Includes minimum lease payments recognized as lease expense. See "Note 25 [b] - Other expenses (income)" in our consolidated financial statements.

[2] Transaction costs associated with completed and ongoing mergers and acquisitions activities.

[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] Impairment charge is a result of a write-down in property, plant and equipment (\$1,558) and intangible of assets (\$3,516). See "Note 12 - Property, plant and equipment and Note 15 - Intangible assets in our consolidated financial statements.

[5] See "Share of associate's net loss (gain) and revaluation gains".

Gross Profit and Adjusted Gross Margin

[thousands of dollars]	Three-months Ended December 31		Year Ended December 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Sales	327,095	227,385	1,198,523	1,000,130
Cost of goods sold	261,200	194,253	894,508	787,340
Gross Profit	65,895	33,132	304,015	212,790
Gross Profit as a % of sales ^[1]	20.1%	14.6%	25.4%	21.3%
Equipment rework and remediation	18,600	30,000	26,100	80,000
Depreciation and amortization	9,602	7,240	34,006	28,527
Adjusted Gross Margin ^[2]	94,097	70,372	364,121	321,317
Adjusted Gross Margin as a % of sales ^[1]	28.8%	30.9%	30.4%	32.1%

[1] This is a supplementary financial measure and is used throughout this MD&A. See “NON-IFRS and OTHER FINANCIAL MEASURES” for more information on each supplementary financial measure.

[2] This is a non-IFRS measure and is used throughout this MD&A. See “NON-IFRS and OTHER FINANCIAL MEASURES” for more information on each non-IFRS measure.

[3] This is a non-IFRS ratio and is used throughout this MD&A. See “NON-IFRS and OTHER FINANCIAL MEASURES” for more information on each non-IFRS ratio.

AGI’s gross profit as a percentage of sales for the year ended December 31, 2021, increased over the prior year as a result of the reduction in cost of equipment rework and remediation. The adjusted gross margin as a percentage of sales for the year ended December 31, 2021 decreased over the prior year, which is partially attributable to higher input costs including steel, components, freight, and labour in the year in addition to the impact of sales mix on consolidated adjusted gross margins.

Impact of Foreign Exchange

Gains and Losses on Foreign Exchange

The 2021 loss on foreign exchange in finance expense is primarily comprised of non-cash items related to the translation of the Company’s U.S. dollar denominated long-term debt at the rate of exchange in effect as at December 31, 2021. See also “Financial Instruments – Foreign exchange contracts”.

Sales and Adjusted EBITDA

AGI’s average rate of exchange for the three-months and year ended December 31, 2021 was \$1.27 [2020 - \$1.32] and \$1.25 [2020 - \$1.34]. 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 strengthen relative to the U.S. dollar.

Remediation costs and equipment rework

Remediation costs

As previously disclosed, over the period of 2019-2020, AGI entered into agreements to supply 35 large hopper bins [the “Bins”] for installation by third parties on two grain storage projects. In 2020, one of the Bins erected at one of these projects [“Customer A”] collapsed during commissioning [the

“Incident”). The Incident did not result in any injuries and AGI immediately issued a demand to suspend use of the Bins at both projects. A total of 15 Bins are located at Customer A’s site and 20 Bins are located at the second site [“Customer B”].

AGI agreed on a remediation plan with Customer B and completed extensive product revisions, remediation and testing during 2021. Subsequent to year-end, AGI announced the successful completion of the remediation at Customer B’s site.

Customer A has proceeded to conduct remediation of the Bins themselves by replacing the Bins with another equipment solution.

In 2021, two legal claims related to the Incident were initiated against AGI for a cumulative amount in excess of \$190 million. The claim by Customer A is in excess of \$80 million. In addition, claims have been made by a second claimant [a customer of Customer A with respect to the Incident site] seeking damages of \$110 million against AGI. AGI had no contractual relationship with the second claimant and is defending the claims as being remote, not proximate and without merit. AGI has legal and contractual defenses to these legal claims, has filed defenses and will fully and vigorously defend itself.

Customer A has also made a separate legal claim against its own insurance broker over coverage they allege the broker failed to put in place, causing Customer A to suffer damages and uninsured losses. Customer A was required to maintain this insurance coverage under the Customer A’s contract with AGI and was required to name AGI as an additional insured.

During the year ended December 31, 2021, an additional provision of \$16.1 million was recorded for revised cost estimates in the audited consolidated financial statements. As at December 31, 2021, the warranty provision for the estimated remediation costs is \$42.4 million [December 31, 2020 – \$69.7 million], with \$43.4 million of the provision having been utilized during the year ended December 31, 2021.

The provision for remediation at Customer A’s site requires significant estimates and judgments about the scope, nature, timing and cost of investigation and remediation work required. It is based on management’s assumptions and estimates at the current date with the cause and determination of responsibility an area of significant estimation uncertainty as the investigation has not been completed and causation has not been determined.

AGI, in consultation with its advisors, has estimated various probability weighted scenarios, including investigation and remediation costs, at the Incident site. Key assumptions included, the degree of liability if any, the estimated number of third-party investigation and legal hours, estimated volume of materials and materials costs, estimated internal and external labour hours, equipment costs and third-party construction costs. As investigation of the incident continues, the provision is subject to revision in the future as further information becomes available, the impact of which could be material.

The provision is based on management’s assessment of the remaining scope, nature, and timing of the work outstanding and has been revised based on experience gained and lessons learned from the successful completion and costs incurred in the reinforcement and commissioning of Customer B’s site during the year. In addition, management has considered the merits of related legal claims and have taken them into consideration in assessing its exposure.

AGI continues to believe that any financial impact will be, at least, partially offset by insurance coverage. AGI is working with insurance providers and external advisors to determine the extent of this cost offset. Insurance recoveries, if any, will be recorded when received.

Equipment rework

The provision for equipment rework relates to previously identified issues with equipment designed and supplied to a customer's commercial facility. During the year ended December 31, 2021, an additional provision of \$10 million was recorded as result of revised cost estimates. As at December 31, 2021, the warranty provision for the equipment rework is \$11.8 million [2020 – \$4.5 million], with \$2.7 million of the provision having been utilized during the year.

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

SG&A expenses for the year ended December 31, 2021 excluding merger and acquisition expenses ["M&A"], other transaction and transitional expenses and depreciation / amortization, were \$213.2 million [17.8% of sales], versus \$183.0 million [18.3% of sales] in 2020. Year-to-date variances from the prior year include the following:

- \$8.8 million increase in sales and marketing as a result of sales and marketing activities return to normal in 2021.
- \$8.4 million increase in salaries, wages and share-based compensation related to performance-based awards.
- \$5.2 million increase in Engineering and IT Expense where \$1.5 million is related to increase in engineering services throughout the Company and \$1.3 million is related to additional IT security investments with the remainder to enhance support of a complex IT infrastructure.
- \$3.5 million increase in consulting expense of which \$3.4 million is related to AGI SureTrack for the work to assist with sales strategy and product enhancements.
- No other individual variance was greater than \$2.0 million.

Finance costs

Finance costs which represent interest incurred on all debt for the twelve-months ended December 31, 2021 were \$43.6 million versus \$46.7 million in 2020. Finance costs have decreased in 2021 as a result of a lower effective interest rate as compared to 2020.

Finance expense (income)

Finance expense (income) which represents interest income earned and foreign exchange on long term debt for the year ended December 31, 2021, was expense of \$2.6 million versus \$1.3 million in 2020. The expense in 2021 relates primarily to the effect of foreign currency translations arising from the settlement of accounts receivables and payables recorded in a currency other than the Company's functional currency (see "BASIS OF PRESENTATION") and non-cash translation of the Company's U.S. dollar denominated long-term debt as the exchange rate fell from 1.2732 as at December 31, 2020 to 1.2678 at December 31, 2021.

Share of associate's net loss (gain) and revaluation gains

Share of associate's net loss for the twelve-months ended December 31, 2021 was a loss of \$1.1 million versus \$4.3 million in 2020. The Company acquired a controlling interest of Farmobile in Q2 2021 [See 2021 Acquisition - Farmobile] and recognized a gain on remeasurement of equity investment of \$6.8 Million in Q2 2021 as a result of the remeasurement of its previously held equity investment at its acquisition-date fair value.

Other operating expense (income)

Other operating expense (income) for the twelve-months ended December 31, 2021, was income of \$7.3 million versus expense of \$10.5 million in 2020. Other operating expense (income) includes non-cash gains and losses on financial instruments, including AGI's equity compensation hedge [see "Equity swap"], and interest income from customer financing arrangements. A significant portion of the increase relates to the unrealized change in fair value of the equity swap.

Profit (loss) before income taxes and Adjusted EBITDA

The following table reconciles profit (loss) before income taxes to Adjusted EBITDA.

	Three-months Ended		Year Ended	
	December 31		December 31	
	2021	2020	2021	2020
[thousands of dollars]	\$	\$	\$	\$
Profit (loss) before income taxes	(21,701)	(23,049)	9,383	(80,966)
Finance costs	11,948	11,938	43,599	46,692
Depreciation and amortization	16,374	13,956	62,049	55,271
Share of associate's net loss ^[1]	-	947	1,077	4,314
Gain on remeasurement of equity investment ^[1]	-	-	(6,778)	-
Loss (gain) on foreign exchange ^[2]	211	(8,933)	2,992	1,730
Share-based compensation ^[3]	2,553	1,223	8,551	6,428
(Gain) loss on financial instruments ^[4]	(1,929)	(1,975)	(1,382)	14,502
M&A expense ^[5]	962	390	3,035	1,736
Change in estimate on variable considerations ^[6]	11,400	-	11,400	-
Other transaction and transitional costs ^[7]	4,763	3,249	12,058	14,326
Net loss on disposal of property, plant and equipment	(60)	68	23	187
Loss (gain) on settlement of right-of-use assets	(28)	2	(17)	(3)
Gain on disposal of foreign operation	-	-	(898)	-
Equipment rework and remediation ^[8]	18,600	30,000	26,100	80,000
Impairment charge ^[9]	1,558	-	5,074	5,111
Adjusted EBITDA ^[10]	44,651	27,816	176,266	149,328

[1] See "Share of associate's net loss (gain) and revaluation gains".

[2] See "Note 25 [e] - Other expenses (income)" in our consolidated financial statements.

[3] The Company's share-based compensation expense pertains to our equity incentive award plan ("EIAP") and directors' deferred compensation plan ("DDCP"). See "Note 24 - Share-based compensation plans" in our consolidated financial statements.

[4] See "Equity swap".

[5] Transaction costs associated with completed and ongoing mergers and acquisitions activities.

[6] The result of a change in management estimate on variable considerations for a one-time sales concessions related to previous sales contracts.

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

[8] See "Remediation costs and equipment rework"

[9] Impairment charge is a result of a write-down in property, plant and equipment (\$1,558) and intangible of assets (\$3,516). See "Note 12 - Property, plant and equipment" and "Note 15 - Intangible assets in our consolidated financial statements.

[10] This is a non-IFRS measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.

Profit (loss) before income taxes and Adjusted EBITDA by Segment

[thousands of dollars]	Year Ended December 31, 2021				
	Farm \$	Commercial \$	Digital \$	Other ^[12] \$	Total \$
Profit (loss) before income taxes	116,987	38,192	(19,850)	(125,946)	9,383
Finance costs	-	-	-	43,599	43,599
Depreciation and amortization ^[1]	20,250	23,292	12,354	6,153	62,049
Share of associate's net loss ^[2]	-	-	-	1,077	1,077
Gain on remeasurement of equity investment ^[2]	-	-	-	(6,778)	(6,778)
Loss (gain) on foreign exchange ^[3]	-	-	-	2,992	2,992
Share-based compensation ^[4]	-	-	-	8,551	8,551
(Gain) loss on financial instruments ^[5]	-	-	-	(1,382)	(1,382)
M&A expense ^[6]	-	-	-	3,035	3,035
Change in estimate on variable considerations ^[7]	11,400	-	-	-	11,400
Other transaction and transitional costs ^[8]	-	-	-	12,058	12,058
Net loss on disposal of property, plant and equipment ^[1]	(189)	213	(2)	1	23
Loss (gain) on settlement of right-of-use assets ^[1]	11	-	-	(28)	(17)
Gain on disposal of foreign operation	-	-	-	(898)	(898)
Equipment rework and remediation ^[9]	-	-	-	26,100	26,100
Impairment charge ^[10]	-	5,074	-	-	5,074
Adjusted EBITDA ^[11]	148,459	66,771	(7,498)	(31,466)	176,266

[thousands of dollars]	Year Ended December 31, 2020				
	Farm \$	Commercial \$	Digital \$	Other ^[12] \$	Total \$
Profit (loss) before income taxes	96,762	33,700	(10,320)	(201,108)	(80,966)
Finance costs	-	-	-	46,692	46,692
Depreciation and amortization ^[1]	19,994	25,070	5,063	5,144	55,271
Share of associate's net loss ^[2]	-	-	-	4,314	4,314
Gain on remeasurement of equity investment ^[2]	-	-	-	-	-
Loss (gain) on foreign exchange ^[3]	-	-	-	1,730	1,730
Share-based compensation ^[4]	-	-	-	6,428	6,428
(Gain) loss on financial instruments ^[5]	-	-	-	14,502	14,502
M&A expense ^[6]	-	-	-	1,736	1,736
Change in estimate on variable considerations ^[7]	-	-	-	-	-
Other transaction and transitional costs ^[8]	-	-	-	14,326	14,326
Net loss on disposal of property, plant and equipment ^[1]	82	37	49	19	187
Loss (gain) on settlement of right-of-use assets ^[1]	(1)	(2)	-	-	(3)
Gain on disposal of foreign operation	-	-	-	-	-
Equipment rework and remediation ^[9]	-	-	-	80,000	80,000
Impairment charge ^[10]	-	-	-	5,111	5,111
Adjusted EBITDA ^[11]	116,837	58,805	(5,208)	(21,106)	149,328

	Three-Months Ended December 31, 2021				
	Farm	Commercial	Digital	Other ^[12]	Total
[thousands of dollars]	\$	\$	\$	\$	\$
Profit (loss) before income taxes	19,326	16,917	(8,428)	(49,516)	(21,701)
Finance costs	-	-	-	11,948	11,948
Depreciation and amortization ^[1]	5,212	5,663	3,907	1,592	16,374
Share of associate's net loss ^[2]	-	-	-	-	-
Gain on remeasurement of equity investment ^[2]	-	-	-	-	-
Loss (gain) on foreign exchange ^[3]	-	-	-	211	211
Share-based compensation ^[4]	-	-	-	2,553	2,553
(Gain) loss on financial instruments ^[5]	-	-	-	(1,929)	(1,929)
M&A expense ^[6]	-	-	-	962	962
Change in estimate on variable considerations ^[7]	11,400	-	-	-	11,400
Other transaction and transitional costs ^[8]	-	-	-	4,763	4,763
Net loss on disposal of property, plant and equipment ^[1]	(258)	198	-	-	(60)
Loss (gain) on settlement of right-of-use assets ^[1]	-	-	-	(28)	(28)
Gain on disposal of foreign operation	-	-	-	-	-
Equipment rework and remediation ^[9]	-	-	-	18,600	18,600
Impairment charge ^[10]	-	1,558	-	-	1,558
Adjusted EBITDA ^[11]	35,680	24,336	(4,521)	(10,844)	44,651

	Three-Months Ended December 31, 2020				
	Farm	Commercial	Digital	Other ^[12]	Total
[thousands of dollars]	\$	\$	\$	\$	\$
Profit (loss) before income taxes	15,068	8,683	(3,315)	(43,485)	(23,049)
Finance costs	-	-	-	11,938	11,938
Depreciation and amortization ^[1]	4,954	6,194	1,488	1,320	13,956
Share of associate's net loss ^[2]	-	-	-	947	947
Gain on remeasurement of equity investment ^[2]	-	-	-	-	-
Loss (gain) on foreign exchange ^[3]	-	-	-	(8,933)	(8,933)
Share-based compensation ^[4]	-	-	-	1,223	1,223
(Gain) loss on financial instruments ^[5]	-	-	-	(1,975)	(1,975)
M&A expense ^[6]	-	-	-	390	390
Change in estimate on variable considerations ^[7]	-	-	-	-	-
Other transaction and transitional costs ^[8]	-	-	-	3,249	3,249
Net loss on disposal of property, plant and equipment ^[1]	6	-	45	17	68
Loss (gain) on settlement of right-of-use assets ^[1]	-	2	-	-	2
Gain on disposal of foreign operation	-	-	-	-	-
Equipment rework and remediation ^[9]	-	-	-	30,000	30,000
Impairment charge ^[10]	-	-	-	-	-
Adjusted EBITDA ^[11]	20,028	14,879	(1,782)	(5,309)	27,816

- [1] Allocated based on the segment of the underlying asset's cash generating unit ("CGU").
- [2] See "Share of associate's net loss (gain) and revaluation gains".
- [3] See "Note 25 [e] - Other expenses (income)" in our consolidated financial statements.
- [4] The Company's share-based compensation expense pertains to our EIAP and DDCP. See "Note 24 – Share-based compensation plans" in our consolidated financial statements.
- [5] See "Equity swap".
- [6] Transaction costs associated with completed and ongoing mergers and acquisitions activities.
- [7] The result of a change in management estimate on variable considerations for a one-time sales concessions related to previous sales contracts.
- [8] Includes restructuring and other acquisition related transition costs, as well as the accretion and other movement in contingent consideration and amounts due to vendors.
- [9] See "Remediation costs and equipment rework"
- [10] Impairment charge is a result of a write-down in property, plant and equipment (\$1,558) and intangible of assets (\$3,516). See "Note 12 - Property, plant and equipment" and "Note 15 – Intangible assets in our consolidated financial statements.
- [11] This is a non-IFRS measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.
- [12] Included in Other is the corporate office, which is not a reportable segment, and which provides finance, treasury, legal, human resources and other administrative support to the segments.

Profit (loss) before income taxes and Adjusted EBITDA by Geography

[thousands of dollars]	Year Ended December 31, 2021				
	Canada	US	International	Other ^[12]	Total
	\$	\$	\$	\$	\$
Profit (loss) before income taxes	29,757	60,701	44,871	(125,946)	9,383
Finance costs	-	-	-	43,599	43,599
Depreciation and amortization ^[1]	12,487	24,832	18,577	6,153	62,049
Share of associate's net loss ^[2]	-	-	-	1,077	1,077
Gain on remeasurement of equity investment ^[2]	-	-	-	(6,778)	(6,778)
Loss (gain) on foreign exchange ^[3]	-	-	-	2,992	2,992
Share-based compensation ^[4]	-	-	-	8,551	8,551
(Gain) loss on financial instruments ^[5]	-	-	-	(1,382)	(1,382)
M&A expense ^[6]	-	-	-	3,035	3,035
Change in estimate on variable considerations ^[7]	11,400	-	-	-	11,400
Other transaction and transitional costs ^[8]	-	-	-	12,058	12,058
Net loss on disposal of property, plant and equipment ^[1]	5	10	7	1	23
Loss (gain) on settlement of right-of-use assets ^[1]	2	5	4	(28)	(17)
Gain on disposal of foreign operation	-	-	-	(898)	(898)
Equipment rework and remediation ^[9]	-	-	-	26,100	26,100
Impairment charge ^[10]	-	5,074	-	-	5,074
Adjusted EBITDA ^[11]	53,651	90,622	63,459	(31,466)	176,266

[thousands of dollars]	Year Ended December 31, 2020				
	Canada	US	International	Other ^[12]	Total
	\$	\$	\$	\$	\$
Profit (loss) before income taxes	39,785	53,869	26,488	(201,108)	(80,966)
Finance costs	-	-	-	46,692	46,692
Depreciation and amortization ^[1]	14,154	22,194	13,779	5,144	55,271
Share of associate's net loss ^[2]	-	-	-	4,314	4,314
Gain on remeasurement of equity investment ^[2]	-	-	-	-	-
Loss (gain) on foreign exchange ^[3]	-	-	-	1,730	1,730
Share-based compensation ^[4]	-	-	-	6,428	6,428
(Gain) loss on financial instruments ^[5]	-	-	-	14,502	14,502
M&A expense ^[6]	-	-	-	1,736	1,736
Change in estimate on variable considerations ^[7]	-	-	-	-	-
Other transaction and transitional costs ^[8]	-	-	-	14,326	14,326
Net loss on disposal of property, plant and equipment ^[1]	47	74	47	19	187
Loss (gain) on settlement of right-of-use assets ^[1]	(1)	(1)	(1)	-	(3)
Gain on disposal of foreign operation	-	-	-	-	-
Equipment rework and remediation ^[9]	-	-	-	80,000	80,000
Impairment charge ^[10]	-	-	-	5,111	5,111
Adjusted EBITDA ^[11]	53,985	76,136	40,313	(21,106)	149,328

[thousands of dollars]	Three-Months Ended December 31, 2021				
	Canada	US	International	Other ^[12]	Total
	\$	\$	\$	\$	\$
Profit (loss) before income taxes	(1,995)	7,980	21,830	(49,516)	(21,701)
Finance costs	-	-	-	11,948	11,948
Depreciation and amortization ^[1]	2,112	5,787	6,883	1,592	16,374
Share of associate's net loss ^[2]	-	-	-	-	-
Gain on remeasurement of equity investment ^[2]	-	-	-	-	-
Loss (gain) on foreign exchange ^[3]	-	-	-	211	211
Share-based compensation ^[4]	-	-	-	2,553	2,553
(Gain) loss on financial instruments ^[5]	-	-	-	(1,929)	(1,929)
M&A expense ^[6]	-	-	-	962	962
Change in estimate on variable considerations ^[7]	11,400	-	-	-	11,400
Other transaction and transitional costs ^[8]	-	-	-	4,763	4,763
Net gain on disposal of property, plant and equipment ^[1]	(9)	(23)	(28)	-	(60)
Loss (gain) on settlement of right-of-use assets ^[1]	-	-	-	(28)	(28)
Gain on disposal of foreign operation	-	-	-	-	-
Equipment rework and remediation ^[9]	-	-	-	18,600	18,600
Impairment charge ^[10]	-	1,558	-	-	1,558
Adjusted EBITDA ^[11]	11,508	15,302	28,685	(10,844)	44,651

[thousands of dollars]	Three-Months Ended December 31, 2020				
	Canada	US	International	Other ^[12]	Total
	\$	\$	\$	\$	\$
Profit (loss) before income taxes	6,469	8,282	5,685	(43,485)	(23,049)
Finance costs	-	-	-	11,938	11,938
Depreciation and amortization ^[1]	3,277	5,458	3,901	1,320	13,956
Share of associate's net loss ^[2]	-	-	-	947	947
Gain on remeasurement of equity investment ^[2]	-	-	-	-	-
Loss (gain) on foreign exchange ^[3]	-	-	-	(8,933)	(8,933)
Share-based compensation ^[4]	-	-	-	1,223	1,223
(Gain) loss on financial instruments ^[5]	-	-	-	(1,975)	(1,975)
M&A expense ^[6]	-	-	-	390	390
Change in estimate on variable considerations ^[7]	-	-	-	-	-
Other transaction and transitional costs ^[8]	-	-	-	3,249	3,249
Net loss on disposal of property, plant and equipment ^[1]	13	22	16	17	68
Loss (gain) on settlement of right-of-use assets ^[1]	1	1	-	-	2
Gain on disposal of foreign operation	-	-	-	-	-
Equipment rework and remediation ^[9]	-	-	-	30,000	30,000
Impairment charge ^[10]	-	-	-	-	-
Adjusted EBITDA ^[11]	9,760	13,763	9,602	(5,309)	27,816

[1] Allocated based on the geographical region sales with the exception of expenses noted in Other.

[2] See "Share of associate's net loss (gain) and revaluation gains".

[3] See "Note 25 [e] - Other expenses (income)" in our consolidated financial statements.

[4] The Company's share-based compensation expense pertains to our EIAP and DDCP. See "Note 24 - Share-based compensation plans" in our consolidated financial statements.

[5] See "Equity swap".

[6] Transaction costs associated with completed and ongoing mergers and acquisitions activities.

[7] The result of a change in management estimate on variable considerations for a one-time sales concessions related to previous sales contracts.

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

[9] See "Remediation costs and equipment rework"

[10] Impairment charge is a result of a write-down in property, plant and equipment (\$1,558) and intangible of assets (\$3,516). See "Note 12 - Property, plant and equipment" and "Note 15 - Intangible assets in our consolidated financial statements.

[11] This is a non-IFRS measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.

[12] Included in Other is the corporate office which provides finance, treasury, legal, human resources and other administrative support to the geographical regions.

As expected, AGI's Adjusted EBITDA for the year ended December 31, 2021, increased 18% over 2020. The Farm segment's Adjusted EBITDA increased 27% over 2020 for the year ended December 31, 2021, largely due to solid demand owing to a strong crop year and low dealer inventories. The Commercial segment's 14% Adjusted EBITDA increase is largely due to timing of international projects in addition to the impact of rising input costs including materials, labour, and freight. Updated procedures and countermeasures enacted have mitigated the impact of input cost inflation going forward.

Depreciation and amortization

Depreciation of property, plant and equipment; depreciation of right-of-use assets and amortization of intangible assets are categorized in the income statement in accordance with the function to which the underlying asset is related. Depreciation and amortization are consistent with the prior year.

Income tax (recovery) expense

Current income tax expense

Current tax expense for the three-month and year ended December 31, 2021, was \$4.3 million and \$9.4 million, respectively, versus \$3.6 million and \$7.1 million, respectively, in 2020.

Deferred income tax recovery

Deferred tax recovery for the three-month and year ended December 31, 2021 was a recovery of \$9.6 million and \$10.6 million, respectively, versus \$11.6 million and \$26.4 million, respectively, in 2020. The deferred tax recovery in 2021 related to the recognition of temporary differences between the accounting and tax treatment of intangible assets and non-capital loss carryforwards.

	Three-months Ended December 31		Year Ended December 31	
	2021	2020	2021	2020
[thousands of dollars]	\$	\$	\$	\$
Current tax expense	4,280	3,593	9,445	7,089
Deferred tax recovery	(9,631)	(11,628)	(10,620)	(26,407)
Total tax	(5,351)	(8,035)	(1,175)	(19,318)
Profit (loss) before income taxes	(21,701)	(23,049)	9,383	(80,966)
Effective income tax rate	24.7%	34.9%	(12.5%)	23.9%

The effective income tax rate in 2021 was impacted by the current period recognition of previously unrecognized deferred tax assets in Brazil and items that were included in the calculation of earnings before tax for accounting purposes but were not included or deducted for tax purposes. Significant items are included in the tables under "Diluted profit (loss) per share and diluted adjusted profit per share".

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

The Company's diluted profit (loss) per share for the three-months and year ended December 31, 2021, were loss of \$0.87 and profit of \$0.50 compares to a loss of \$0.80 and \$3.30 in 2020, respectively. Profit (loss) per share in 2021 and 2020 has been impacted by the items enumerated in the table below, which reconciles profit (loss) to adjusted profit.

[thousands of dollars except per share amounts]	Three-months Ended		Year Ended	
	December 31		December 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Profit (loss)	(16,350)	(15,014)	10,558	(61,648)
Diluted profit (loss) per share	(0.87)	(0.80)	0.50	(3.30)
Loss (gain) on foreign exchange ^[1]	211	(8,933)	2,992	1,730
M&A expense ^[2]	962	390	3,035	1,736
Other transaction and transitional costs ^[3]	4,763	3,249	12,058	14,326
(Gain) loss on financial instruments ^[4]	(1,929)	(1,975)	(1,382)	14,502
Change in estimate on variable considerations ^[5]	11,400	-	11,400	-
Net loss on disposal of property, plant and equipment	(60)	68	23	187
Loss (gain) on settlement of right-of-use assets	(28)	2	(17)	(3)
Impairment charge ^[6]	1,558	-	5,074	5,111
Equipment rework and remediation ^[7]	18,600	30,000	26,100	80,000
Gain on disposal of foreign operation	-	-	(898)	-
Share of associate's net loss ^[8]	-	947	1,077	4,314
Gain on remeasurement of equity investment ^[8]	-	-	(6,778)	-
Adjusted profit ^[9]	19,127	8,734	63,242	60,255
Diluted adjusted profit per share ^[10]	0.89	0.46	2.90	3.17

[1] See "Note 25 [e] - Other expenses (income)" in our consolidated financial statements.

[2] Transaction costs associated with completed and ongoing mergers and acquisitions activities.

[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] See "Equity swap".

[5] The result of a change in management estimate on variable considerations for a one-time sales concessions related to previous sales contracts.

[6] Impairment charge is a result of a write-down in property, plant and equipment (\$1,558) and intangible of assets (\$3,516). See "Note 12 - Property, plant and equipment and Note 15 - Intangible assets in our consolidated financial statements.

[7] See "Remediation costs and equipment rework"

[8] See "Share of associate's net loss (gain) and revaluation gains".

[9] This is a non-IFRS measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.

[10] This is a non-IFRS ratio and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS ratio.

QUARTERLY FINANCIAL INFORMATION

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

	2021				
	Average	Sales ⁽¹⁾	Profit (Loss)	Basic Profit	Diluted Profit
	USD/CAD				
	Rate	\$	\$	Share	per Share
				\$	\$
Q1	1.27	255,977	12,704	0.68	0.66
Q2	1.23	301,592	14,276	0.76	0.74
Q3	1.25	313,859	(73)	0.00	0.00
Q4	1.27	327,095	(16,349)	(0.87)	(0.87)
YTD	1.25	1,198,523	10,558	0.56	0.50

2020					
	Average USD/CAD Exchange Rate	Sales ⁽¹⁾ \$	Profit (Loss) \$	Basic Profit (Loss) per Share \$	Diluted Profit (Loss) per Share \$
Q1	1.32	228,875	(48,844)	(2.61)	(2.61)
Q2	1.40	261,420	14,472	0.77	0.76
Q3	1.34	282,450	(12,262)	(0.66)	(0.66)
Q4	1.32	227,385	(15,014)	(0.80)	(0.80)
YTD	1.34	1,000,130	(61,648)	(3.30)	(3.30)

[1] See "BASIS OF PRESENTATION"

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

- AGI's acquisitions of Affinity [Q1 2020] and a controlling interest in Farmobile [Q2 2021] impact comparisons between periods of assets, liabilities and operating results.
- Sales, gain (loss) on foreign exchange, profit (loss), and diluted profit (loss) per share in all periods are impacted by the rate of exchange between the Canadian and U.S. dollars.
- Profit (loss) and Diluted Profit (loss) per share from 2020 and 2021 were negatively impacted by the Company's estimated remediation costs [see – "Remediation costs and equipment rework"].

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. The emergence of COVID-19 may impact historical seasonality patterns. In the longer-term, AGI's continued expansion into the seed, fertilizer, feed and food verticals should lessen the seasonality related to annual grain volumes and harvest conditions.

LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOW AND LIQUIDITY

[thousands of dollars]	Three-months Ended		Year Ended	
	December 31		December 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Profit (loss) before tax	(21,701)	(23,049)	9,383	(80,966)
Items not involving current cash flows	19,056	1,063	73,379	83,640
Cash provided by operations	(2,645)	(21,986)	82,762	2,674
Net change in non-cash working capital	36,209	63,243	(20,951)	80,059
Transfer from(to) restricted cash	-	-	7,068	-
Non-current accounts receivable and other	(5,337)	(1,804)	(15,559)	(3,001)
Long-term payables	24	144	(8)	333
Settlement of EIAP	(48)	(86)	(817)	(2,882)
Post-combination payments	-	-	(4,154)	-
Income tax paid	(3,817)	265	(9,226)	(3,013)
Cash flows provided by (used in) operating activities	24,386	39,776	39,115	74,170
Cash used in investing activities	(13,306)	(9,656)	(75,318)	(62,698)
Cash provided by (used in) financing activities	1,617	(42,489)	35,054	2,563
Net increase (decrease) in cash during the period	12,697	(12,369)	(1,149)	14,035
Cash, beginning of period	48,610	74,825	62,456	48,421
Cash, end of period	61,307	62,456	61,307	62,456

The decrease in cash provided by operating activities for the three-months ended December 31, 2021, as compared to 2020 is due to net change in non-cash working capital offset by changes in items not involving current cash flows, non-current accounts receivables, post combination expenses and income tax paid whereas the decrease in cash provided by operating activities for the year ended December 31, 2021, as compared to 2020 is due to net change in non-cash working capital, increase in non-current accounts receivable, post combination payments and income taxes paid.

The change in non-cash working capital is largely due to the higher cost of steel, sales mix towards the Farm segment and the reduction in warranty provision as equipment rework and remediation work continues [see "Remediation costs and equipment rework"]. Cash used in investing activities relates primarily to the acquisition of a controlling interest in Farmobile [see "2021 Acquisition – Farmobile"], capital expenditures and internally generated intangibles. Cash provided by (used in) financing activities relates to issuance of the 2021 convertible unsecured subordinated debentures net of redemption of the 2017 convertible unsecured subordination debentures.

Working Capital Requirements

Interim period working capital requirements typically reflect the seasonality of the business. AGI's collections of accounts receivable in North America are weighted towards the third and fourth quarters. This collection pattern, combined with historically high sales in the second and third quarters that result from seasonality, typically lead to accounts receivable levels in North America increasing throughout the year and peaking in the third quarter. Inventory levels in North America typically increase in the first and second quarters and then begin to decline in the third or fourth quarter as sales levels exceed production offset by Milltec's seasonality that is opposite of that described above. In addition, AGI's growing business in Brazil is less seasonal due to the existence of two growing seasons in the country

and the increasing importance of Commercial business in the region. Growth in overall international business which typically has longer payment terms than North America may result in an increase in the number of days accounts receivable remain outstanding and may result in increased usage of working capital in certain quarters. The continuation of the COVID-19 pandemic may impact the Company's working capital requirements.

Capital Expenditures

[thousands of dollars]	Three-months Ended		Year Ended	
	December 31		December 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Maintenance capital expenditures ^[1]	2,488	2,295	10,374	8,141
Non-maintenance capital expenditures ^[1]	7,691	2,460	18,302	19,922
Acquisition of property plant and equipment	10,179	4,755	28,676	28,063

[1] This is a supplementary financial measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.

The acquisition of property, plant and equipment in the three-months and year ended December 31, 2021 were \$10.2 million and \$28.7 million respectively as compared to \$4.8 million and \$28.1 million, respectively, in 2020.

Maintenance capital expenditures in the three-months and year ended December 31, 2021, were \$2.5 million [0.8% of sales] and \$10.4 million [0.9% of sales], respectively versus \$2.3 million [1.0% of sales] and \$8.1 million [0.8% of sales], respectively, in 2020. Maintenance capital expenditures in 2021 relate primarily to purchases of manufacturing equipment and building repairs and historically have approximated 1.0% - 1.5% of sales.

AGI had non-maintenance capital expenditures in the three-months and year ended December 31, 2021, of \$7.7 million and \$18.3 million, respectively versus \$2.5 million and \$19.9 million, respectively in 2020. \$3.9 million of the \$18.3 million of non-maintenance capital expenditures were relating to investment in equipment leasing with the remaining amounts relate to manufacturing capacity expansions in AGI SureTrack, EMEA, Brazil and at certain plants in North America and the addition of manufacturing equipment to support key business units.

The acquisition of property, plant and equipment and its components of maintenance and non-maintenance capital expenditures in 2021 were 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 December 31, 2021 the Company's contractual obligations for the periods indicated:

[thousands of dollars]	Total \$	2022 \$	2023 \$	2024 \$	2025 \$	2026+ \$
2018 Debentures	86,250	86,250	-	-	-	-
2019 Debentures – 1	86,250	-	-	86,250	-	-
2019 Debentures – 2	86,250	-	-	86,250	-	-
2020 Debentures	85,000	-	-	-	-	85,000
2021 Debentures	115,000	-	-	-	-	115,000
Long-term debt ^[1]	437,294	552	461	430	403,536	32,315
Lease liability ^[1]	27,098	6,155	4,412	3,537	3,273	9,721
Short term and low value leases	10	6	2	2	-	-
Due to vendor	6,836	5,269	667	500	400	-
Preferred shares liability ^{[1][2]}	11,690	11,690	-	-	-	-
Purchase obligations ^[3]	3,204	3,204	-	-	-	-
Total obligations	944,882	113,126	5,542	176,969	407,209	242,036

[1] Undiscounted

[2] Related to optionally convertible redeemable preferred shares as part of the Milltec Machinery Inc. acquisition.

[3] Net of deposit.

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

CAPITAL RESOURCES

Assets and Liabilities

(thousands of dollars)	December 31 2021 \$	December 31 2020 \$
Total assets	1,593,654	1,479,179
Total liabilities	1,324,903	1,216,042

Cash

The Company's cash balance at December 31, 2021 was \$61.3 million [2020 - \$62.5 million].

Debt Facilities

As at December 31, 2021:

[thousands of dollars]	Currency	Maturity	Total Facility [CAD] ^{[1][2]}	Amount Drawn ^[1]	Effective Interest Rate
			\$	\$	
Canadian Swing Line	CAD	2025	40,000	—	2.83%
USD Swing Line	USD	2025	12,678	—	2.20%
Canadian Revolver Tranche A ^[3]	CAD	2025	235,000	126,417	2.98%
Canadian Revolver Tranche B ^[4]	USD	2025	50,712	50,000	2.50%
U.S. Revolver	USD	2025	209,187	201,834	2.20%
Series B Notes ^[5]	CAD	2025	25,000	25,000	4.44%
Series C Notes ^[5]	USD	2026	31,695	31,695	3.70%
Equipment Financing	various	2025	2,306	2,306	Various
Total			606,578	437,252	

[1] USD denominated amounts translated to CAD at the rate of exchange in effect on December 31, 2021 of \$1.2678.

[2] Excludes the \$150 million accordion available under AGI's credit facility.

[3] Interest rate fixed for \$40 million via interest rate swaps. See "Interest Rate Swaps".

[4] Amounts were drawn in CAD with a 105% overdraft limit on FX fluctuation.

[5] Fixed interest rate.

AGI has swing line facilities of \$40 million and U.S. \$10 million as at December 31, 2021. The facilities bear interest at prime plus 0.2% to prime plus 1.5% per annum based on performance calculations. As at December 31, 2021, there was \$nil [2020 – \$nil] outstanding under the swing line.

AGI's revolver facilities of \$275 million and U.S. \$215 million are inclusive of amounts that may be allocated to the Company's swing line and can be drawn in Canadian or U.S. funds. The facilities bear interest at BA or LIBOR plus 1.2% to BA or LIBOR plus 2.5% and prime plus 0.2% to prime plus 1.5% per annum based on performance calculations.

The Company has issued U.S. \$25 million and CAD \$25 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.

Debentures

Convertible Unsecured Subordinated Debentures

The following table summarizes the key terms of the convertible unsecured subordinated debentures [the "Convertible Debentures"] of the Company that were outstanding as at December 31, 2021:

Year Issued / TSX Symbol	Aggregate Principal Amount \$	Coupon	Conversion Price \$	Maturity Date	Redeemable at Par ⁽¹⁾
2018 [AFN.DB.E]	86,250,000	4.50%	88.15	Dec 31, 2022	Jan 1, 2022
2021 [AFN.DB.I]	115,000,000	5.00%	45.14	Jun 30, 2027	Jun 30, 2025

[1] 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,

[2] Such Convertible Debentures may be redeemed, in whole or in part, at the option of the Company at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares of the Company during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price.

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Convertible Debentures by issuing and delivering common shares of the Company (“Common Shares”). The Company may also elect to satisfy its obligation to pay interest on the Convertible Debentures by delivering sufficient Common Shares to the trustee the Convertible Debentures to be sold, with the proceeds used to satisfy the obligation to pay interest. The Company does not expect to exercise the option to satisfy its obligations to pay the principal amount or interest by delivering Common Shares. The number of Common Shares issued would be determined based on market prices at the time of issuance.

On October 14, 2021, AGI entered into an agreement with a syndicate of underwriters pursuant to which AGI issued on November 3, 2021 on a “bought deal” basis \$100 million aggregate principal amount of convertible unsecured subordinated debentures [the “Debentures”] at a price of \$1,000 per Debenture [the “Offering”]. On November 9, 2021, AGI issued an additional \$15 million aggregate principal amount of Debentures at the same price pursuant to the exercise of the over-allotment option granted by AGI to the underwriters. With the full exercise of the over-allotment option, the total gross proceeds from the Offering to AGI were \$115 million.

The Debentures bear interest from the date of issue at 5.00% per annum, payable semi-annually in arrears on June 30 and December 31 each year, commencing June 30, 2022. The Debentures have a maturity date of June 30, 2027 [the “Maturity Date”].

The 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 Debentures into fully paid and non-assessable Common Shares at a conversion price of \$45.14 per Common Share [the “Conversion Price”], being a conversion rate of approximately 22.1533 Common Shares for each \$1,000 principal amount of Debentures.

The Debentures are not redeemable by the Company before June 30, 2025. On and after June 30, 2025 and prior to June 30, 2026, the Debentures may be redeemed in whole or in part from time to time at AGI’s option 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 on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the Conversion Price. On and after June 30, 2026, the Debentures may be redeemed in whole or in part from time to time at AGI’s option at a price equal to their principal amount, plus accrued and unpaid interest, regardless of the trading price of the Common Shares.

The net proceeds of the Offering were used to partially repay outstanding indebtedness under the Company’s revolving credit facilities, a portion of which were then redrawn to fund the redemption of the Company’s 4.85% convertible unsecured subordinated debentures due June 30, 2022 and for general corporate purposes.

On November 16, 2021, the Company redeemed its 4.85% convertible unsecured subordinated debentures due June 30, 2022 [“2017 Debentures”] in accordance with the terms of the supplemental trust indenture governing such debentures. Upon redemption, AGI paid to the holders of the 2017 Debentures the aggregate redemption price of \$87.8 million equal to the outstanding principal amount of the 2017 Debentures redeemed including accrued and unpaid interest up to but excluding the redemption date, less taxes deducted or withheld. A loss of \$0.7 million was recorded to loss on

financial instruments, and the equity component of the 2017 Debentures was reclassified to contributed surplus.

The Company expensed the remaining unamortized balance of \$0.6 million of deferred fees related to the 2017 Debentures. The expense was recorded to finance costs in the consolidated statements of income (loss).

Senior Unsecured Subordinated Debentures

The following table summarizes the key terms of the Senior Unsecured Subordinated Debentures [the “Senior Debentures”] that were outstanding as at December 31, 2021:

Year Issued / TSX Symbol	Aggregate Principal Amount \$	Coupon	Maturity Date
2019 March [AFN.DB.F]	86,250,000	5.40 %	June 30, 2024
2019 November [AFN.DB.G]	86,250,000	5.25 %	December 31, 2024
2020 March [AFN.DB.H]	85,000,000	5.25 %	December 31, 2026

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Senior Debentures by issuing and delivering Common Shares. The Company may also elect to satisfy its obligation to pay interest on the Senior Debentures by delivering sufficient Common Shares to the trustee of the Senior Debentures to be sold, with the proceeds used to satisfy the obligation to pay interest. The number of Common Shares issued would be determined based on market prices at the time of issuance.

COMMON SHARES

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

	# Common Shares
December 31, 2020	18,718,415
Settlement of EIAP obligations	74,653
Conversion of 2017 Debentures	502
December 31, 2021	18,793,570
Settlement of EIAP obligations	26,959
March 8, 2022	18,820,529

At March 8, 2022:

- 18,820,529 Common Shares are outstanding;
- 1,565,000 Common Shares are available for issuance under the Company's Equity Incentive Award Plan [the “EIAP”], of which 1,412,129 have been granted and 152,571 remain unallocated;
- 500,000 Common Shares are available for issuance under the Company's Stock Option Plan, of which, 500,000 remain unallocated;
- 120,000 deferred grants of Common Shares have been granted under the Company's Directors' Deferred Compensation Plan and 19,788 Common Shares have been issued; and
- 3,526,075 Common Shares are issuable on conversion of the outstanding Convertible Debentures, of which there are an aggregate principal amount of \$200 million outstanding.

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

DIVIDENDS

AGI declared dividends to shareholders in the three-month period and year ended December 31, 2021 of \$2.8 million and \$11.3 million, respectively, versus \$2.8 million and \$19.6 million, in the same period in 2020. On April 14, 2020, AGI announced a reduction of its dividend to an annual level of \$0.60 and at the same time moved the dividend from monthly to quarterly payments. 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.

CASH PROVIDED BY OPERATIONS, FUNDS FROM OPERATIONS AND PAYOUT RATIOS

	Year Ended December 31	
	2021	2020
[thousands of dollars]	\$	\$
Cash provided by operations	82,762	2,674
Items not involving current cashflows	(73,379)	(83,640)
Profit (loss) before income taxes	9,383	(80,966)
Combined adjustments to Adjusted EBITDA ^[1]	166,883	230,294
Adjusted EBITDA ^[2]	176,266	149,328
Interest expense	(43,599)	(46,692)
Non-cash interest	6,034	5,081
Cash taxes	(9,226)	(3,013)
Maintenance capital expenditures ^[2]	(10,374)	(8,141)
Funds from operations ^[2]	119,101	96,563
Dividends	11,271	19,635
Payout Ratio ^[3] from cash provided by operations	14%	734%
Payout Ratio ^[4] from funds from operations	9%	20%

[1] See "Profit (loss) before income taxes and Adjusted EBITDA"

[2] This is a non-IFRS measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS measure.

[3] This is a supplementary financial measure and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each supplementary financial measure.

[4] This is a non-IFRS ratio and is used throughout this MD&A. See "NON-IFRS and OTHER FINANCIAL MEASURES" for more information on each non-IFRS ratio.

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 December 31, 2021.

Interest Rate Swaps

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

	Currency	Maturity	Amount of Swap [000's] \$	Fixed Rate ^[1]
Canadian dollar contracts	CAD	2022	40,000	4.1 %

[1] With performance adjustment.

The interest rate swap contract is a derivative financial instrument and changes in the fair value were recognized as a gain (loss) on financial instruments in other operating income. Through this contract, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rate of 4.1%. The notional amount is \$40.0 million, resetting the last business day of each month and the contract expires May 2022.

During the three-month period and year ended December 31, 2021, the Company recorded an unrealized gain \$0.2 million and \$0.6 million, respectively, versus an unrealized gain of \$0.2 million and a loss \$1.0 million, respectively, in 2020.

Equity swap

The Company is party to an equity swap agreement with a financial institution to manage the Company's cash flow exposure due to fluctuations in its Common Share price related to the EIAP and the Company signed an amending agreement on March 4, 2021 to extend the maturity date to May 7, 2024.

As at December 31, 2021, the equity swap agreement covered 722,000 Common Shares at a weighted average price of \$38.76 and the fair value of the equity swap was a \$5.0 million liability [2020 – \$6.4 million liability]. During the three-month period and year ended December 31, 2021, the Company recorded, in the consolidated statements of income (loss) an unrealized gain of \$2.4 million and \$1.4 million, respectively, compared to an unrealized gain of \$1.9 million and a loss of \$12.0 million, respectively in 2020.

Debenture redemption options

In March 2020, the Company issued \$85 million of senior unsecured subordinated debentures with an option of early redemption beginning December 31, 2023. At time of issuance, the Company's redemption option resulted in an embedded derivative with fair value of \$0.3 million. During the three-month period and year ended December 31, 2021, the Company recorded an unrealized gain of \$0.1 million and \$0.3 million, respectively, as compared to a loss of \$0.2 million and \$0.8 million, respectively in 2020, on financial instruments in other operating expense.

2020 ACQUISITION

Affinity

In January 2020, the Company acquired 100% of the outstanding shares of Affinity. Based in Canada, Affinity is a provider of software solutions to the agriculture industry under the brand name Compass. The Compass product suite is highly complementary to AGI's current offering and will be a key component of the full AGI SureTrack platform.

2021 ACQUISITION

Farmobile

Effective April 16, 2021, AGI acquired additional outstanding shares of Farmobile for approximately \$11 million USD pursuant to stock purchase agreements. AGI now owns 100% of the preferred stock and approximately 76% of the common stock of Farmobile. The terms of the agreements will facilitate the acquisition of all outstanding shares of Farmobile, building on AGI's initial minority equity investment made in Farmobile in 2019. Farmobile brings the market-leading, two-way, field data management device along with a robust platform for data standardization and management. The Farmobile PUC™ enables the real-time automation and standardization of critical data collection from equipment used in the field. This acquisition builds on AGI's robust IoT product portfolio as an addition to the AGI SureTrack platform.

SUBSEQUENT EVENTS

Eastern Fabricators Acquisition

On January 4, 2022, AGI announced that it had acquired Eastern Fabricators ("Eastern"). Eastern specializes in the engineering, design, fabrication, and installation of high-quality stainless-steel equipment and systems for food processors. Eastern operates three facilities in Canada with two in Prince Edward Island and one in Ontario. Eastern serves a range of customers across North America and has developed strong relationships with some of the world's largest multinational food processors. Consideration for the acquisition included an upfront purchase price of \$29.25 million paid on closing plus the potential for an additional \$15.75 million in earn out payments based on the achievement of financial targets in future years. The acquisition was funded primarily through AGI's senior debt facilities.

OTHER RELATIONSHIPS

Burnet, Duckworth & Palmer LLP provides legal services to the Company, and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. During the three-month period and year ended December 31, 2021, the total cost of these legal services related to general matters was \$0.3 million and \$1.0 million [2020 – \$0.1 million and \$0.9 million], and \$0.5 million is included in accounts payable and accrued liabilities as at December 31, 2021.

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

CRITICAL ACCOUNTING ESTIMATES

Described in the notes to the Company's 2021 consolidated financial statements are the accounting policies and estimates that AGI believes are critical to its business. Please refer to note 4 to the consolidated financial statements for a discussion of the significant accounting judgments, estimates and assumptions. In addition, the provision for remediation [see – "Remediation Costs"] required significant estimates and judgments about the scope, timing and cost of work that will be required. It is based on management's assumptions and estimates at the current date and is subject to revision in the future as further information becomes available to the Company.

RISKS AND UNCERTAINTIES

The Company and its business are subject to numerous risks and uncertainties which are described in this MD&A and the Company's most recent Annual Information Form, which are available under the Company's profile on SEDAR [www.sedar.com]. These risks and uncertainties include but are not limited to the following: general economic and business conditions and changes in such conditions locally, in North America, South America, South Asia and globally; the effects of global outbreaks of pandemics or contagious diseases or the fear of such outbreaks, such as the recent coronavirus (COVID-19) pandemic, including on our operations, our personnel, our supply chain, the demand for our products, our ability to expand and produce in new geographic markets or the timing of such expansion efforts, and on overall economic conditions and customer confidence and spending levels; the ability of management to execute the Company's business plan; fluctuations in agricultural and other commodity prices and interest and currency exchange rates; crop planting, crop conditions and crop yields; weather patterns, the timing of harvest and conditions during harvest; volatility of production costs; governmental regulation of the agriculture and manufacturing industries, including environmental regulation; actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs; risks inherent in marketing operations; credit risk; the availability of credit for customers; seasonality and industry cyclicality; potential delays or changes in plans with respect to capital expenditures; the cost and availability of sufficient financial resources to fund the Company's capital expenditures; incorrect assessments of the value of acquisitions and failure of the Company to realize the anticipated benefits of acquisitions; volatility in the stock markets including the market price of the Common Shares and in market valuations; competition for, among other things, customers, supplies, acquisitions, capital and skilled personnel; the availability of capital on acceptable terms; dependence on suppliers; changes in labour costs and the labour market; product liability; contract liability; climate change risks; adjustment to and delays or cancellation of backlogs; and requirement to re-supply equipment or re-complete work previously supplied or completed at AGI's costs, and the risk that AGI's assumptions and estimates made in respect of such costs and underlying the provision for warranty accrual and remediation in our consolidated financial statements related thereto and insurance coverage therefor (including for the Incident) will prove to be incorrect as further information becomes available to the Company. 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

Standards issued but not yet effective

Amendments to IAS 1 – Presentation of Financial Statements [“IAS 1”]

In January 2020, amendments were issued to IAS 1, which provide requirements for classifying liabilities as current or non-current. Specifically, the amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments must be applied retrospectively for annual periods beginning after January 1, 2024. The Company will assess the impact, if any, of adoption of the amendment.

Amendments to IAS 1 and IFRS Practice Statement [“PS”] 2 Making Materiality Judgements

In February 2021, amendments were issued to IAS 1 and IFRS PS 2, which provide guidance and examples to help entities apply materiality judgment to accounting policy disclosures. Specifically, the amendments aim to:

- Replace the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies; and
- Add guidance on how to apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual periods beginning after January 1, 2023. The Company will assess the impact, if any, of adoption of the amendment.

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 has concluded that disclosure controls and procedures were effective as at December 31, 2021.

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 consolidated financial statements for external purposes in accordance with IFRS. Management has evaluated the design and operating effectiveness of the Company’s internal controls over financial reporting as at December 31, 2021 and has concluded that the internal controls over financial reporting are effective.

AGI acquired a controlling interest in Farmobile in 2021. Management has not completed its review of internal controls over financial reporting or disclosure controls and procedures for this acquired business. Since the acquisition 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 this acquisition, 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 Farmobile. The following is the summary financial information pertaining to Farmobile that was included in AGI's consolidated financial statements:

[thousands of dollars]	Farmobile \$
Revenue ^[1]	1,111
Loss ^[1]	10,434
Current assets ^{[1][2]}	2,493
Non-current assets ^{[1][2]}	34,951
Current liabilities ^{[1][2]}	2,874
Non-current liabilities ^{[1][2]}	4,083

[1] Net of intercompany

[2] Statement of financial position as at December 31, 2021

There have been no changes in AGI's internal controls over financial reporting that occurred in the three-month period ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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", "estimate", "believe", "continue", "could", "expects", "intend", "plans", "will", "may" 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; our outlook for our financial and operating performance in 2022, including our expectations for our future financial results (including our forecast for full year 2022 adjusted EBITDA), industry demand and market conditions, growth prospects, and the anticipated ongoing impacts of the COVID-19 pandemic on our business, operations and financial results; the estimated costs to the Company that may result from the remediation work associated with the Incident, including the costs of remediation, and the availability of insurance coverage to offset such costs; matters relating to litigation arising as a result of the Incident; the estimated costs to the Company from ongoing equipment rework; our ability to mitigate the impact of inflation; our ability to lessen the seasonality of our business; the factors that may impact our working capital requirements; the sufficiency of our liquidity; long-term fundamentals and growth drivers of our business; future payment of dividends and

the amount thereof; and with respect to our ability to achieve the expected benefits of recent acquisitions and the contribution therefrom. Such forward-looking information reflects our current beliefs and is based on information currently available to us, including certain key expectations and assumptions concerning: the anticipated impacts of the COVID-19 pandemic on our business, operations and financial results; future debt levels; 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 the effects of global outbreaks of pandemics or contagious diseases or the fear of such outbreaks, such as the recent COVID-19 pandemic, including the effects on the Company's operations, personnel, and supply chain, the demand for its products and services, its ability to expand and produce in new geographic markets or the timing of such expansion efforts, and on overall economic conditions and customer confidence and spending levels, changes in international, national and local macroeconomic and business conditions, as well as sociopolitical conditions in certain local or regional markets, weather patterns, crop planting, crop yields, crop conditions, the timing of harvest and conditions during harvest, the ability of management to execute the Company's business plan, seasonality, industry cyclicality, volatility of production costs, agricultural commodity prices, the cost and availability of capital, currency exchange and interest rates, the availability of credit for customers, competition, AGI's failure to achieve the expected benefits of recent acquisitions including to realize anticipated synergies and margin improvements; changes in trade relations between the countries in which the Company does business including between Canada and the United States; cyber security risks; the risk that the assumptions and estimates underlying the provision for remediation related to the Incident and insurance coverage for the Incident will prove to be incorrect as further information becomes available to the Company; and the risk of litigation in respect of equipment or work previously supplied or completed or in respect of other matters and the risk that AGI incurs material liabilities in connection with such litigation that are not covered by insurance in whole or in part. These risks and uncertainties are described under "Risks and Uncertainties" in this MD&A and in our most recently filed Annual Information Form, all of which are available under the Company's profile on SEDAR [www.sedar.com]. 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. Further, AGI cannot guarantee that the anticipated revenue from its backlogs will be realized or, if realized, will result in profits or adjusted EBITDA. Delays, cancellations and scope adjustments occur from time-to-time with respect to contracts reflected in AGI's backlogs, which can adversely affect the revenue and profit that AGI actually receives from its backlogs. 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. Without limitation of the foregoing, the provision for remediation related to the Incident required significant estimates and judgments about the scope, nature, timing and cost of work that will be required. It is based on management's assumptions and estimates at the current date and is subject to revision in the future as further information becomes available to the Company. 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.

FINANCIAL OUTLOOK

Also included in this MD&A is an estimate of AGI's 2022 Adjusted EBITDA, which is based on, among other things, the various assumptions disclosed in this news release including under "Forward-Looking Information" and including our assumptions regarding (i) the adjusted EBITDA contribution that AGI anticipates receiving in 2022 from Eastern, which was acquired by AGI on January 4, 2022 (see "SUBSEQUENT EVENTS – Eastern Fabricators Acquisition" in our MD&A for further details regarding the acquisition of Eastern), and (ii) the adjusted EBITDA contribution that AGI anticipates receiving from revenue growth in 2022 as a result of the 47% YOY increase in AGI's backlogs at December 31, 2021. To the extent such estimate constitutes a financial outlook, it was approved by management on March 8, 2022 and is included to provide readers with an understanding of AGI's anticipated Adjusted EBITDA based on the assumptions described herein and readers are cautioned that the information may not be appropriate for other purposes.

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].

Consolidated financial statements

Ag Growth International Inc.

December 31, 2021

Independent auditor's report

To the Shareholders of
Ag Growth International Inc.

Opinion

We have audited the consolidated financial statements of **Ag Growth International Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of income (loss), consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for remediation costs</i></p> <p>The Group entered into an agreement with a customer to supply 15 large hopper bins for installation by third parties with respect to a grain storage project. On September 11, 2020, a bin at the customer facility collapsed during commissioning.</p> <p>During the year ended December 31, 2021, a legal claim was initiated by the customer against the Group in excess of \$80 million alleging damages and losses arising from the Group's contractual agreement to supply equipment to the customer.</p> <p>The Group accrues a warranty provision at the time of product sale and records an additional provision for unexpected events when they are probable and estimable.</p> <p>The Group's provision as at December 31, 2021 is \$42.4 million on the basis of estimated costs of investigation and remediation for the equipment relating to the customer under the terms of the product warranty obligation.</p> <p>The provision required significant estimates and judgments about the scope, nature, timing and cost of work required. Management's probability weighted estimate of the additional provision considered estimates and assumptions with respect to the degree of liability, if any, the estimated number of third-party investigation and legal hours, estimated volume of materials and material costs, estimated internal and external labor hours, equipment costs and third-party construction costs.</p> <p>The matter has been deemed a key audit matter due to the estimation uncertainty and significant judgment and subjectivity involved in evaluating management's assumptions.</p> <p>Refer to notes 3, 4 and 18 in the consolidated financial statements for the Group's disclosures related to this provision.</p>	<p>Our approach to testing the provision included performing the following procedures, among others:</p> <ul style="list-style-type: none">• We obtained an understanding of the estimation methodology and significant judgments included in the provision for remediation costs through interviews with the Group's internal engineers, internal and external legal counsel, finance personnel and others directly involved in the project.• We reviewed the legal claim made by the customer and related legal correspondence together with the customer supply agreement. Our procedures included discussions with internal and external legal counsel.• We corroborated the key estimates and assumptions made by management, including the degree of liability, the estimated number of third-party investigation and legal hours, estimated volume of materials and materials costs, estimated internal and external labour hours, equipment costs and third party construction costs, with external legal counsel and third-party engineers engaged by the Group to assist with the investigation and remediation for the customer site.• We assessed the estimated remediation costs by agreeing materials (volume and pricing), hourly rates, estimated labour hours and equipment and construction costs to historic and third-party cost information. We tested the mathematical accuracy of the provision.• We evaluated the reasonableness of management's assumptions used in the remediation provision by comparing actual costs incurred during the year for similar remediation work performed at a site for another customer with estimates used in the calculation of the remediation provision recorded for the customer at December 31, 2021.• We assessed the adequacy of the disclosure in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment test for indefinite life intangible assets	
<p>The Group has brand names that are classified as indefinite life intangible assets, with a carrying value of \$124.4 million at December 31, 2021. These indefinite life intangible assets do not generate largely independent cash flows and are therefore tested as part of the cash generating units ["CGUs"] to which they belong. CGUs that contain indefinite life intangible assets are tested for impairment annually and whenever there is an indication of impairment.</p> <p>A value in use model was used by management to calculate the recoverable amount of each CGU. The value in use model requires the use of significant judgment and estimation in respect of management's assumptions in determining future cash flow forecasts, especially revenue growth rates, terminal growth rates, gross margins and discount rates.</p> <p>This matter has been considered a key audit matter due to the significant judgment and subjectivity involved in evaluating management's estimates and assumptions, specifically revenue growth rates, terminal growth rates, gross margins and discount rates, in determining the recoverable amount of each CGU.</p> <p>Refer to notes 3, 4, 15 and 16 in the consolidated financial statements for the Group's disclosures related to its indefinite life intangible assets impairment testing.</p>	<p>Our approach to testing the recoverable amount of the CGUs included the assistance of our valuation specialists to perform the following procedures, among others:</p> <ul style="list-style-type: none">• We evaluated the appropriateness of the value in use model methodology and recalculated its mathematical accuracy.• We performed a retrospective analysis and compared the 2021 actual results to the 2021 Board approved budget to assess management's ability to forecast.• We agreed the 2022 forecasts to the Board approved budget for 2022.• We evaluated the reasonableness of the CGUs' revenue growth rates, terminal growth rates and gross margins by comparing the significant assumptions to externally available industry and economic trends data and historical results, which considered geographic location, weather conditions, crop sizes, crop prices, changing food preferences, farming trends and trade agreements.• We evaluated the discount rate by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.• We performed sensitivity analysis on the revenue growth rates, terminal growth rates, gross margins and discount rates to evaluate changes in the recoverable amount of the CGU that would result from changes in these assumptions.• We reviewed the adequacy of the disclosures included in the consolidated financial statements.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Ashraf El-Bakri.

Winnipeg, Canada
March 8, 2022

Ernst & Young LLP

Chartered Professional Accountants



Ag Growth International Inc.

Consolidated statements of financial position

[in thousands of Canadian dollars]

As at

	2021	2020
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	61,307	62,456
Restricted cash <i>[note 8]</i>	2,424	9,616
Accounts receivable <i>[note 9]</i>	206,271	176,316
Inventory <i>[note 10]</i>	243,250	178,904
Prepaid expenses and other assets <i>[note 26]</i>	44,788	36,457
Current portion of notes receivable <i>[note 11]</i>	5,428	5,457
Income taxes recoverable	9,351	6,950
	572,819	476,156
Non-current assets		
Property, plant and equipment, net <i>[note 12]</i>	349,310	354,533
Right-of-use assets, net <i>[note 13]</i>	19,211	14,342
Goodwill <i>[note 14]</i>	358,610	350,669
Intangible assets, net <i>[note 15]</i>	253,042	249,459
Investment in associate <i>[note 6[b]]</i>	—	12,878
Non-current accounts receivable <i>[note 9]</i>	34,742	19,183
Notes receivable <i>[note 11]</i>	364	475
Deferred tax asset <i>[note 27]</i>	5,556	964
	1,020,835	1,002,503
Assets held for sale	—	520
Total assets	1,593,654	1,479,179
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 17]</i>	195,646	139,098
Customer deposits	86,457	46,013
Dividends payable	2,819	2,808
Derivative instruments <i>[note 30]</i>	337	6,386
Income taxes payable	6,350	4,825
Current portion of due to vendor	5,269	7,164
Current portion of lease liability <i>[note 19]</i>	5,016	3,027
Current portion of long-term debt <i>[note 20]</i>	532	475
Current portion of convertible unsecured subordinated debentures <i>[note 21]</i>	84,913	—
Current portion of optionally convertible redeemable preferred shares <i>[note 30[b]]</i>	11,690	17,943
Provisions <i>[note 18]</i>	65,618	83,361
	464,647	311,100
Non-current liabilities		
Other financial liabilities <i>[note 26]</i>	704	2,754
Derivative instruments <i>[note 30]</i>	5,036	771
Due to vendor	1,567	2,247
Optionally convertible redeemable preferred shares <i>[note 30[b]]</i>	—	11,028
Lease liability <i>[note 19]</i>	17,263	13,815
Other non-current liabilities	5,400	—
Long-term debt <i>[note 20]</i>	434,009	408,898
Convertible unsecured subordinated debentures <i>[note 21]</i>	94,620	167,319
Senior unsecured subordinated debentures <i>[note 22]</i>	250,872	249,079
Deferred tax liability <i>[note 27]</i>	50,785	49,031
	860,256	904,942
Total liabilities	1,324,903	1,216,042
Shareholders' equity <i>[note 23]</i>		
Common shares	5,233	1,730
Accumulated other comprehensive loss	(22,799)	(10,262)
Equity component of convertible debentures	12,905	4,427
Contributed surplus	494,684	487,540
Deficit	(221,272)	(220,298)
Total shareholders' equity	268,751	263,137
Total liabilities and shareholders' equity	1,593,654	1,479,179

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert
Director

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

Ag Growth International Inc.

Consolidated statements of income (loss)

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

Years ended December 31

	2021	2020
	\$	\$
Sales [notes 3 and 7]	1,198,523	1,000,130
Cost of goods sold [note 25[a]]	894,508	787,340
Gross profit	304,015	212,790
Expenses		
Selling, general and administrative [note 25[b]]	256,344	225,819
Other operating expense (income) [note 25[c]]	(7,299)	10,534
Impairment charge [notes 12 and 15]	5,074	5,111
Finance costs [note 25[d]]	43,599	46,692
Finance expense [note 25[e]]	2,615	1,286
Share of associate's net loss [note 6[b]]	1,077	4,314
Gain on remeasurement of equity investment [note 6[b]]	(6,778)	—
	294,632	293,756
Profit (loss) before income taxes	9,383	(80,966)
Income tax expense (recovery) [note 27]		
Current	9,445	7,089
Deferred	(10,620)	(26,407)
	(1,175)	(19,318)
Profit (loss) for the year	10,558	(61,648)
Profit (loss) per share [note 28]		
Basic	0.56	(3.30)
Diluted	0.50	(3.30)

See accompanying notes

Ag Growth International Inc.

Consolidated statements of comprehensive loss

[in thousands of Canadian dollars]

Years ended December 31

	2021	2020
	\$	\$
Profit (loss) for the year	<u>10,558</u>	<u>(61,648)</u>
Other comprehensive loss		
Item that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	<u>(14,333)</u>	<u>(32,275)</u>
	<u>(14,333)</u>	<u>(32,275)</u>
Items that will not be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit plans	2,444	(493)
Income tax effect on defined plans	<u>(648)</u>	131
	<u>1,796</u>	<u>(362)</u>
Other comprehensive loss for the year	<u>(12,537)</u>	<u>(32,637)</u>
Total comprehensive loss for the year	<u>(1,979)</u>	<u>(94,285)</u>

See accompanying notes

Ag Growth International Inc.

Consolidated statements of changes in shareholders' equity

[in thousands of Canadian dollars]

Year ended December 31, 2021

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Foreign currency reserve \$	Equity investment \$	Defined benefit plan reserve \$	Total shareholders' equity \$
As at January 1, 2021	1,730	4,427	487,540	(220,298)	(8,938)	(900)	(424)	263,137
Profit for the year	—	—	—	10,558	—	—	—	10,558
Other comprehensive income (loss)	—	—	—	—	(14,333)	—	1,796	(12,537)
Share-based payment transactions <i>[note 23[a][b]]</i>	3,461	—	4,175	—	—	—	—	7,636
Dividends paid to shareholders <i>[note 23[d]]</i>	—	—	—	(11,271)	—	—	—	(11,271)
Dividends on share-based compensation awards <i>[note 23[d]]</i>	—	—	—	(261)	—	—	—	(261)
Issuance of 2021 convertible debentures <i>[note 21]</i>	42	11,472	—	—	—	—	—	11,514
Redemption of convertible unsecured subordinated debentures <i>[note 21]</i>	—	(2,994)	2,969	—	—	—	—	(25)
As at December 31, 2021	5,233	12,905	494,684	(221,272)	(23,271)	(900)	1,372	268,751

See accompanying notes

Ag Growth International Inc.

Consolidated statements of changes in shareholders' equity

[in thousands of Canadian dollars]

Year ended December 31, 2020

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Foreign currency reserve \$	Equity investment \$	Defined benefit plan reserve \$	Total shareholders' equity \$
As at January 1, 2020	455,857	6,707	27,113	(138,657)	23,337	(900)	(62)	373,395
Loss for the year	—	—	—	(61,648)	—	—	—	(61,648)
Other comprehensive loss	—	—	—	—	(32,275)	—	(362)	(32,637)
Share-based payment transactions <i>[note 23[a][b]]</i>	5,642	—	(1,646)	—	—	—	—	3,996
Dividends paid to shareholders <i>[note 23[d]]</i>	—	—	—	(19,635)	—	—	—	(19,635)
Dividends on share-based compensation awards <i>[note 23[d]]</i>	—	—	—	(358)	—	—	—	(358)
Redemption of convertible unsecured subordinated debentures <i>[note 21]</i>	—	(2,280)	2,304	—	—	—	—	24
Reduction in stated capital <i>[note 23[b]]</i>	(459,769)	—	459,769	—	—	—	—	—
As at December 31, 2020	1,730	4,427	487,540	(220,298)	(8,938)	(900)	(424)	263,137

See accompanying notes

Ag Growth International Inc.

Consolidated statements of cash flows

[in thousands of Canadian dollars]

Years ended December 31

	2021	2020
	\$	\$
Operating activities		
Profit (loss) before income taxes	9,383	(80,966)
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	24,912	25,642
Depreciation of right-of-use assets	4,619	3,935
Amortization of intangible assets	32,518	25,694
Loss on sale of property, plant and equipment	23	187
Gain on settlement of lease liability	(17)	(3)
Loss on redemption of convertible debentures	676	746
Impairment charge	5,074	5,111
Share of associate's net loss	1,077	4,314
Gain on remeasurement of equity investment <i>[note 6[b]]</i>	(6,778)	—
Foreign exchange reclassification on disposal of foreign operation	(898)	—
Non-cash component of interest expense	6,034	5,081
Non-cash movement in derivative instruments	(2,058)	13,756
Non-cash investment tax credits	(484)	(122)
Share-based compensation expense	8,551	8,854
Defined benefit plan expense	144	132
Employer contribution to defined benefit plans	(9)	—
Due to vendor	4,097	9,778
Translation gain on foreign exchange	(4,102)	(19,465)
	<u>82,762</u>	<u>2,674</u>
Changes in non-cash working capital balances related to operations <i>[note 29[a]]</i>	(20,951)	80,059
Transfer from (to) restricted cash	7,068	—
Non-current accounts receivable	(15,559)	(3,001)
Long-term payables	(8)	333
Settlement of EIAP obligation	(817)	(2,882)
Post-combination payments	(4,154)	—
Income taxes paid	(9,226)	(3,013)
Cash provided by operating activities	<u>39,115</u>	<u>74,170</u>
Investing activities		
Acquisition of property, plant and equipment	(28,676)	(28,063)
Proceeds from sale of property, plant and equipment	511	423
Development and purchase of intangible assets	(16,890)	(12,064)
Acquisitions, net of cash acquired <i>[note 6]</i>	(12,865)	(7,301)
Transaction cost paid and payable	(17,398)	(11,090)
Transfer from (to) restricted cash	—	(4,603)
Cash used in investing activities	<u>(75,318)</u>	<u>(62,698)</u>
Financing activities		
Issuance of long-term debt, net of issuance costs	41,144	149,212
Repayment of long-term debt	(15,545)	(128,173)
Change in swing line	(43)	—
Repayment of obligation under lease liabilities	(3,877)	(3,340)
Change in interest accrued	956	(526)
Issuance of senior unsecured subordinated debentures, net of issuance costs <i>[note 22]</i>	(153)	80,979
Issuance of convertible unsecured subordinated debentures, net of costs	110,016	—
Redemption of convertible unsecured subordinated debentures	(86,183)	(75,031)
Dividends paid in cash <i>[note 23[d]]</i>	(11,261)	(20,558)
Cash provided by financing activities	<u>35,054</u>	<u>2,563</u>
Net increase (decrease) in cash during the year	<u>(1,149)</u>	<u>14,035</u>
Cash and cash equivalents, beginning of year	<u>62,456</u>	<u>48,421</u>
Cash and cash equivalents, end of year	<u>61,307</u>	<u>62,456</u>
Supplemental cash flow information		
Interest paid	<u>36,941</u>	<u>42,312</u>

See accompanying notes

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

1. Organization

The consolidated financial statements of Ag Growth International Inc. ["AGI" or the "Company"] for the year ended December 31, 2021 were authorized for issuance in accordance with a resolution of the directors on March 8, 2022. AGI is a listed company incorporated and domiciled in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

2. Operations

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

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

3. Summary of significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

Principles of consolidation

The consolidated financial statements include the accounts of Ag Growth International Inc. and its subsidiaries, Ag Growth Holdings Corp., AGI Alpha Holdings Corp., AGI Bravo Holdings Corp., AGI Charlie Holdings Corp., AGI Solutions Inc., AGI Agricultural Equipment Pty Limited, AGI Agricultural Equipment (Nigeria) Limited, Farmobile, Inc., Farmobile LLC, Ag Growth International Australia Pty Ltd., Westfield Distributing (North Dakota) Inc., Hansen Manufacturing Corp., Improtech Ltd., Union Iron Inc., Airlanco Inc., Tramco, Inc., Tramco Europe Limited, Euro-Tramco B.V., AGI Netherlands B.V., AGI Comercio de Equipamentos E Montagens Ltda, AGI EMEA S.R.L., AGI Brasil Industria e Comercio S.A., Mitchell Mill Systems USA Inc., Yargus Manufacturing, Inc., Global Industries, Inc., CMC Industrial Electronics Ltd., CMC Industrial Electronics USA, Inc., Junge Control Inc., Danmare Group Inc., Danmare, Inc., Sabe S.A.S., Milltec Machinery Private Limited, AGI SureTrack LLC, AGI SureTrack Ltd., and Ag Growth International (Thailand) Ltd. as at December 31, 2021. Subsidiaries are fully consolidated from the date of acquisition, it being the

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

date on which AGI obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Business combinations and goodwill

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

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

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

In a business combination achieved in stages, previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss or other comprehensive income, as appropriate. Any previously recognized changes in the value of the equity interest recorded in other comprehensive income is recognized in the consolidated statement of income (loss) on the same basis as would be required had the Company disposed directly of the previously held equity interest.

Foreign currency translation

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

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

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

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

For the year ended December 31, 2021, the effect of foreign currency translations arising from the settlement of accounts receivable and payable recorded in a currency other than the Company's functional currency has been presented within finance income (expenses); historically, the foreign exchange impact was presented in sales. The Company's change in presentation on its audited consolidated financial statements was made in accordance with IAS 1 and IAS 8. Under IAS 8, a change in accounting policy is permitted if the change results in the financial statements providing more reliable and relevant information about the effects of transactions on the entity's financial position. In addition, IAS 1 requires an entity to reclassify its comparative information when making such changes in presentation and therefore comparative figures have been restated accordingly. As a result, for the year ended December 31, 2021, a foreign exchange loss of \$1,612 [2020 – \$6,099] has been recorded in finance expense on the consolidated statement of profit and loss.

Cash and cash equivalents

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

Inventory

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of any accumulated depreciation and any impairment losses determined. Cost includes the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary and, where relevant, the present value of all dismantling and removal costs. Where major components of property, plant and equipment have different useful lives, the components are recognized and depreciated separately. AGI recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, and if it is probable that the future economic benefits embodied with the item can be reliably measured. All other repair and maintenance costs are recognized in the consolidated statements of income (loss) as an expense when incurred.

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

Buildings	5–60 years
Manufacturing equipment	1–20 years
Computer hardware	3–5 years
Leasehold improvements	Over the lease period
Furniture and fixtures	3–15 years
Vehicles	2–16 years

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

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

Leases

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

At inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative stand-alone prices. For leases of land and buildings, the lease and non-lease components are accounted for as a single lease component as permitted within IFRS 16.

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in rates, the amount expected to be payable under a residual value guarantee, or the Company's assessment of whether it will exercise a purchase, extension or termination option. Upon remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded the consolidated statements of income (loss) if the carrying amount of the right-of-use asset has been reduced to zero.

For short-term leases [12 months or less] and leases of low-value assets, the Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

Borrowing costs

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Intangible assets

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

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

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

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

Patents	4–20 years
Distribution networks and customer relationships	8–25 years
Development projects	2–15 years
Order backlog	3–6 months
Non-compete agreement	7 years
Software	1–10 years
Brand names (finite lives)	3 years
Technology	3 years

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Investments in associates

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

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

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

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

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

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

Impairment of non-financial assets

AGI assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual testing for an asset is required, AGI estimates the asset's recoverable amount. The recoverable amount of goodwill as well as intangible assets is estimated at least annually on December 31. The recoverable amount is the higher of an asset's or CGU group's fair value less costs to sell and its value in use.

Value in use is determined by discounting estimated future cash flows using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified,

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

an appropriate valuation model is used. The recoverable amount of assets that do not generate independent cash flows is determined based on the CGU group to which the asset belongs.

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

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

For assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, AGI estimates the asset's or CGU group's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset or CGU group in prior years. Such a reversal is recognized in the consolidated statements of income (loss).

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

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

Financial instruments

Financial assets

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

All financial instruments are recognized initially at fair value plus, in the case of instruments not at FVTPL, directly attributable transaction costs. Financial instruments are recognized on the trade date, which is the date on which AGI commits to purchase or sell the asset. Accounts receivable that do not contain a significant financing component or

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Amortized cost

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

Fair value through other comprehensive income [debt securities]

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

Fair value through other comprehensive income [equity investments]

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

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

Financial assets at fair value through profit or loss

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

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash of the combined instrument varies in a way similar to a stand-alone derivative. Derivatives embedded in a financial asset within the scope of IFRS 9 are assessed in their entirety, and the asset as whole is measured at FVTPL. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if the host asset is not within the scope of IFRS 9 [e.g., lease contracts]. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statements of income (loss).

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Impairment

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

Under the general approach, ECLs are recognized in two stages: [i] for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months; [ii] for those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default [a lifetime ECL].

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

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

Financial liabilities

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Derecognition

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

The Company applies IFRS 9 for hedge accounting, whereby at the inception of a hedge relationship, AGI formally designates and documents the hedge relationship to which AGI wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements [including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined].

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly as OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statements of income (loss) in other operating income or expenses. Amounts recognized as OCI are transferred to the consolidated statements of income (loss) when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques that are recognized by market participants. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Provisions

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Warranty provisions

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

Profit per share

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

Revenue recognition

Sale of goods

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

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

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

The Company applies the practical expedient for advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

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

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

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

Income taxes

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

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

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax items are recognized in correlation to the underlying transaction either in the consolidated statements of income (loss), OCI or directly in equity.

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Sales tax

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

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

Share-based compensation plans

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

Equity-settled transactions

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

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

Cash-settled transactions

A liability is recognized for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cost of cash-settled transactions is determined using the grant date fair value and is recognized, together with a corresponding increase in liabilities, over the period in which the performance and/or service conditions are fulfilled. The approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions.

Employee benefits

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

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

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

Current employee wages and benefits are expensed as incurred.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Post-retirement benefit plans

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

Research and development expenses

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

Government grants

Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grants relate to an asset, the fair value is credited to the cost of the asset and is released to the consolidated statements of income (loss) over the expected useful life in a consistent manner with the depreciation method for the relevant assets. Income-related government grants received are recorded against cost of goods sold and selling, general and administrative expenses.

Investment tax credits

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

4. Significant accounting judgments, estimates and assumptions

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

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

Impact of COVID-19 pandemic

The COVID-19 pandemic continues to impact the global economy, supply chains, and business productivity. Management continues to believe post-crisis demand will be positively impacted as the world builds additional redundancy into the global food infrastructure to account for similar events in the future. AGI is currently fully operational

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

across all manufacturing locations globally, with no loss of productive capacity owing to COVID-19 during the year ended December 31, 2021.

However, headwinds stemming from the pandemic have impacted the availability and cost of raw materials required for production. Various disruptions in the supply chain including steel supply and logistics have caused significant delays on a number of projects. Potential restrictions and lockdowns in countries severely impacted by COVID-19, such as Brazil and India, may experience supply chain disruptions and temporary production suspensions. In addition, while restrictions imposed by governments around the world to limit the impact of the pandemic have eased and vaccination rates have increased, the emergence of other variants remains a risk to the global economy. Therefore, although AGI operations were captured as essential services and management has undertaken appropriate steps to mitigate the disruptions, unexpected future developments, such as the emergence and progression of new variants and actions taken by governments in response to a resurgence of cases, may have impact on the consolidated financial results and conditions of the Company in future periods.

Provisions for equipment rework and remediation costs

As a component of its warranty provisions, the Company has recognized a provision for equipment rework and remediation costs in relation to events that occurred in 2019 and 2020 [note 18]. In determining the provision, assumptions and estimates are made in relation to expected costs and expected timing of those costs. Assumptions and judgments are used in various probability weighted scenarios based on information known as at the reporting date. The nature and scope of work and costs estimated are determined in consultation with internal and external advisors and are management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. As additional information becomes available, estimates and assumptions made by management could differ materially in future reporting periods.

Impairment of non-financial assets

AGI's impairment test is based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and do not include restructuring activities to which AGI has not yet committed or significant future investments that will enhance the asset's performance of the CGU being tested. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate, as well as the forecasted adjusted gross margins and revenue growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 16.

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Impairment of financial assets

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

In assessing whether objective evidence of impairment exists at each reporting date, the Company uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns [i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance]. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 30[b]. The letters of credit and other forms of credit insurance are considered an integral part of trade receivables and considered in the calculation of impairment. The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and operate in largely independent markets.

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

Development costs

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

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

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

Fair value of financial instruments

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

value at the acquisition date as part of the business combination and subsequently fair valued as described in business combinations below.

Share-based payments

AGI measures the cost of equity-settled share-based payment transactions with employees by reference to the fair value of equity instruments at the grant date, whereas the fair value of cash-settled share-based payments is remeasured at every reporting date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of these instruments, which is dependent on the terms and conditions of the grant.

Income taxes

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

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

Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in leases; therefore, it uses its incremental borrowing rate ["IBR"] to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available [such as subsidiaries that do not enter into financing transactions] or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs, such as market interest rates, when available and is required to make certain entity-specific estimates [such as a subsidiary's stand-alone credit rating].

Business combinations

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as at the date of acquisition. Contingent consideration resulting from business combinations

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration is recognized, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

5. Standards issued but not yet effective

Amendments to IAS 1, *Presentation of Financial Statements* ["IAS 1"]

In January 2020, amendments were issued to IAS 1, which provide requirements for classifying liabilities as current or non-current. Specifically, the amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments must be applied retrospectively for annual periods beginning after January 1, 2024. The Company will assess the impact, if any, of adoption of the amendment.

Amendments to IAS 1 and IFRS Practice Statement ["PS"] 2, *Making Materiality Judgments*

In February 2021, amendments were issued to IAS 1 and IFRS PS 2, which provide guidance and examples to help entities apply materiality judgment to accounting policy disclosures. Specifically, the amendments aim to:

- Replace the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies; and
- Add guidance on how to apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual periods beginning after January 1, 2023. The Company will assess the impact, if any, of adoption of the amendment.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

6. Business combinations

[a] Affinity Management Ltd.

Effective January 16, 2020, the Company acquired 100% of the outstanding shares of Affinity Management Ltd. ["Affinity"]. Based in Canada, Affinity is a provider of software solutions to the agriculture industry under the brand name Compass®. The Compass product suite is highly complementary to AGI's current offering and will be a key component of the full AGI SureTrack platform.

	\$
Purchase price	12,500
Cash acquired	199
Due to vendor	153
Total purchase price	12,852
Post-combination expense	(5,000)
Purchase consideration	7,852

The \$5 million of post-combination expense is expected to be expensed over a five-year period, contingent on certain conditions. During the year ended December 31, 2021, \$1,283 [2020 – \$2,283] related to certain terms of the purchase agreement was expensed.

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

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

	\$
Cash	199
Accounts receivable	18
Prepaid expenses and other assets	15
Income taxes recoverable	153
Property, plant and equipment	63
Right-of-use assets	2,207
Intangible assets	
Software	3,322
Goodwill	5,012
Accounts payable and accrued liabilities	(92)
Customer deposits	(5)
Lease liability	(2,207)
Deferred tax liability	(833)
Purchase consideration	7,852

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The goodwill of \$5,012 comprises the value of the assembled workforce and other expected synergies arising from the acquisition.

The fair value of the accounts receivable acquired is \$18. This consists of the gross contractual value of \$20 less the estimated amount not expected to be collected of \$2.

In 2021, the allocation of the purchase price to acquired assets and liabilities was finalized.

The components of the purchase consideration are as follows:

	\$
Cash paid	7,500
Due to vendor	352
Purchase consideration	<u>7,852</u>

Transaction costs related to the Affinity acquisition in the year ended December 31, 2021 were \$30 [2020 – \$50] and are included in selling, general and administrative expenses. The due to vendor balance was paid during the year.

[b] Farmobile, Inc.

Effective April 16, 2021, AGI acquired additional outstanding shares of Farmobile, Inc. ["Farmobile"] for approximately \$11 million USD pursuant to the preferred share and common share stock purchase agreements. The terms of the agreements facilitate the acquisition of all outstanding shares of Farmobile, building on AGI's initial equity investment made in Farmobile in 2019. The investment was financed by cash on hand.

Farmobile, headquartered in Leawood, Kansas, is an agriculture technology company. The Farmobile PUC™ is a two-way, field data management device with a platform for data standardization and management; it enables the real-time automation and standardization of critical data collection from equipment used in the field. This acquisition builds on AGI's Internet of Things ["IoT"] product portfolio as an addition to the AGI SureTrack platform.

	\$
Fair value of consideration transferred, net of cash acquired	12,865
Cash acquired	884
Fair value of consideration transferred	<u>13,749</u>
Fair value of equity investment prior to control	<u>18,755</u>
Purchase price	<u>32,504</u>

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

AGI's investment in its associate was accounted for using the equity method. For the year ended December 31, 2021, the Company share of associate's net loss was \$1,077. The additional purchase of shares resulted in control being obtained and has been accounted for by the acquisition method, with the results of Farmobile included in the Company's net earnings subsequent to control being obtained. Immediately before obtaining control, the Company remeasured its previously held equity investment at its acquisition-date fair value and recognized a gain of \$6,778 in profit and loss.

The fair value of the assets acquired and the liabilities assumed has been determined on a provisional basis utilizing information available at the time the audited consolidated financial statements were prepared. Additional information is being gathered to finalize these provisional measurements, particularly with respect to intangible assets, inventory and deferred taxes. Accordingly, the measurement of assets acquired and liabilities assumed may change upon finalization of the Company's valuation and completion of the purchase price allocation, both of which are expected to occur no later than one year from the acquisition date.

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

	\$
Cash	884
Accounts receivable	178
Inventory	412
Prepaid expenses and other assets	642
Property, plant and equipment	45
Right-of-use assets	1,671
Intangible assets	
Technology	24,078
Patents	274
Goodwill	11,795
Accounts payable and accrued liabilities	(1,245)
Customer deposits	(977)
Lease liability	(1,671)
Deferred tax liability	(3,582)
Purchase consideration	<u>32,504</u>

The goodwill of \$11,795 comprises the value of the assembled workforce and other expected synergies arising from the acquisition. During the measurement period, further information regarding tax balances were obtained, resulting in a \$2.1 million adjustment to deferred tax liability with an offsetting increase to goodwill.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The fair value of the accounts receivable acquired is \$178. This consists of the gross contractual value of \$241 less the estimated amount not expected to be collected of \$63.

From the date of acquisition, Farmobile contributed to the results \$1,111 of revenue and \$12,377 of net loss. If the acquisition had taken place as at January 1, 2021, revenue would have increased by an additional \$458 and profit would have decreased by \$4,708.

The components of the purchase consideration are as follows:

	\$
Cash paid	13,749
Fair value of equity investment prior to control	18,755
Purchase price	<u>32,504</u>

Additional contingent consideration, dependent on the outcome of future events, may be payable to certain selling shareholders of Farmobile and AGI. No amount has been accrued as the outcome of the future events is not yet determinable and any payments will be limited to proceeds received from the future events.

Transaction costs related to the Farmobile acquisition in the year ended December 31, 2021 of \$1,389 are included in selling, general and administrative expenses.

7. Reportable business segment

On January 1, 2021, the Company reorganized its business segments to better reflect changes in its operations and management structure. As a result of those changes, the Company identified three reportable segments: Farm, Commercial, and Digital (previously Technology), each supported by the corporate office. The acquisition of Farmobile Inc. in 2021 further moves AGI into the middle of the data verification space required by the rapidly developing carbon and traceability markets. This strengthens the Company's unique ability to capture machine and agronomic data across the entire farming process – from seeding through to harvest and into the broader grain supply chain. As a result, the Company renamed the Technology segment to the Digital segment to recognize the digital evolution of this group. These segments are strategic business units that offer different products and services, and each is managed separately. Certain corporate overheads are included in the segments based on revenue. Taxes and certain other expenses are managed at a consolidated level and are not allocated to the reportable operating segments. Financial information for the comparative period has been restated to reflect the new presentation.

The operating segments are being reported based on the financial information provided to the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ["CODM"] in monitoring segment performance and allocating resources between segments. The CODM assesses segment performance based on adjusted earnings before income tax, depreciation, and amortization ["Adjusted EBITDA"], which is measured differently than profit (loss) from operations in the consolidated financial statements.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The Company's reportable segments are as follows:

- **Farm:** AGI's Farm business includes the sale of grain and fertilizer handling equipment, aeration products and storage bins, primarily to farmers where on-farm storage practices are conducive to the sale of portable handling equipment and smaller diameter storage bins for grain and fertilizer.
- **Commercial:** AGI's Commercial business includes the sale of larger diameter storage bins, high-capacity stationary grain handling equipment, fertilizer storage and handling systems, feed handling and storage equipment, aeration products, hazard monitoring systems, automated blending systems, control systems and food processing solutions. AGI's Commercial customers include large multi-national agri-businesses, grain handlers, regional cooperatives, contractors, food and animal feed manufacturers, and fertilizer blenders and distributors. Commercial equipment is used at port facilities for both the import and export of grains, inland grain terminals, corporate farms, fertilizer distribution sites, ethanol production, oilseed crushing, commercial feed mills, rice mills and flour mills.
- **Digital:** AGI's Digital business is built on a foundation of IoT products that are designed to monitor, operate, and automate the Company's equipment including the collection of key operation data. The Digital business offers monitoring, operation, measurement and blending controls, automation, hazard monitoring, embedded electronics, farm management, grain marketing and tools for agronomy, and Enterprise Resource Planning for agriculture retailers and grain buyers. These products are available both as standalone offerings as well as in combination with larger farm or commercial systems from AGI.

The following tables sets forth information by segment:

	2021	2020
	\$	\$
Farm	614,747	526,784
Commercial	550,654	450,242
Digital	33,122	23,104
Sales	1,198,523	1,000,130

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

	2021				Total \$
	Farm \$	Commercial \$	Digital \$	Other ¹ \$	
Profit (loss) before income taxes	116,987	38,192	(19,850)	(125,946)	9,383
Finance costs	—	—	—	43,599	43,599
Depreciation and amortization	20,250	23,292	12,354	6,153	62,049
Share of associate's net loss	—	—	—	1,077	1,077
Gain on remeasurement of equity investment [note 6]	—	—	—	(6,778)	(6,778)
Loss on foreign exchange	—	—	—	2,992	2,992
Share-based compensation	—	—	—	8,551	8,551
Gain on financial instruments	—	—	—	(1,382)	(1,382)
Mergers and acquisitions expense	—	—	—	3,035	3,035
Change in estimate on variable consideration ³	11,400	—	—	—	11,400
Other transaction and transitional costs	—	—	—	12,058	12,058
Loss (gain) on sale of property, plant and equipment	(189)	213	(2)	1	23
Loss (gain) on settlement of lease liability	11	—	—	(28)	(17)
Foreign exchange reclassification on disposal of foreign operation	—	—	—	(898)	(898)
Equipment rework and remediation [note 18]	—	—	—	26,100	26,100
Impairment [notes 12 and 15]	—	5,074	—	—	5,074
Adjusted EBITDA²	148,459	66,771	(7,498)	(31,466)	176,266

¹ Included in Other is the corporate office, which is not a reportable segment, and which provides finance, treasury, legal, human resources and other administrative support to the segments.

² The CODM uses Adjusted EBITDA as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA is defined as net income before depreciation and amortization, financial expenses, operational restructuring costs and other, income taxes and share of income (loss) of associates. Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS.

³ The result of a change in management estimate on variable considerations for a one-time sales concessions related to previous sales contracts.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

	2020 ³				Total \$
	Farm \$	Commercial \$	Digital \$	Other ¹ \$	
Profit (loss) before income taxes	96,762	33,700	(10,320)	(201,108)	(80,966)
Finance costs	—	—	—	46,692	46,692
Depreciation and amortization	19,994	25,070	5,063	5,144	55,271
Share of associate's net loss	—	—	—	4,314	4,314
Loss on foreign exchange	—	—	—	1,730	1,730
Share-based compensation	—	—	—	6,428	6,428
Loss on financial instruments	—	—	—	14,502	14,502
Mergers and acquisitions expense	—	—	—	1,736	1,736
Other transaction and transitional costs	—	—	—	14,326	14,326
Loss on sale of property, plant and equipment	82	37	49	19	187
Gain on settlement of lease liability	(1)	(2)	—	—	(3)
Equipment rework and remediation [note 18]	—	—	—	80,000	80,000
Impairment [notes 12 and 15]	—	—	—	5,111	5,111
Adjusted EBITDA²	116,837	58,805	(5,208)	(21,106)	149,328

¹ Included in Other is the corporate office, which is not a reportable segment, and which provides finance, treasury, legal, human resources and other administrative support to the segments.

² The CODM uses Adjusted EBITDA as a measure of financial performance for assessing the performance of each of the Company's segments. Adjusted EBITDA is defined as net income before depreciation and amortization, financial expenses, operational restructuring costs and other, income taxes and share of income (loss) of associates. Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS.

³ Financial information for the comparative year has been restated to reflect the new presentation.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

	Sales		Property, plant and equipment, right-of-use assets, goodwill, intangible assets and equity investments	
	2021	2020	2021	2020
	\$	\$	\$	\$
Canada	267,755	282,402	407,357	422,489
United States	532,444	442,813	329,435	312,016
International	398,324	274,915	243,381	247,376
	1,198,523	1,000,130	980,173	981,881

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.

8. Restricted cash

Restricted cash relates to a division of AGI's arrangement with a supplier under which the terms of the arrangement require the division to secure letters of credit to cover a certain percentage of the amounts payable. The restricted cash balance changes in proportion to the division's purchases from the supplier to meet sales demand. As at December 31, 2021, restricted cash is \$2,424 [2020 – \$9,616].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

9. 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:

	2021	2020
	\$	\$
Total current accounts receivable	211,509	180,384
Less expected credit loss	(5,238)	(4,068)
	<u>206,271</u>	<u>176,316</u>
Non-current accounts receivable	34,742	19,183
Total accounts receivable, net	<u>241,013</u>	<u>195,499</u>
Of which		
Neither impaired nor past due	213,787	159,254
Not impaired and past the due date as follows		
Within 30 days	12,870	14,321
31 to 60 days	2,485	5,169
61 to 90 days	1,928	5,047
Over 90 days	15,181	15,776
Expected credit loss	(5,238)	(4,068)
Total accounts receivable, net	<u>241,013</u>	<u>195,499</u>

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

Trade receivables assessed to be impaired are included as an allowance in selling, general and administrative expenses in the period of the assessment. The movement in the Company's allowance for doubtful accounts for the years ended December 31, 2021 and December 31, 2020 was as follows:

	2021	2020
	\$	\$
Balance, beginning of year	4,068	1,758
Additional provision recognized	2,390	2,798
Amounts written off during the year as uncollectible	(347)	(674)
Exchange differences	(873)	186
Balance, end of year	<u>5,238</u>	<u>4,068</u>

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

10. Inventory

	2021	2020
	\$	\$
Raw materials	130,995	87,312
Finished goods	112,255	91,592
	<u>243,250</u>	<u>178,904</u>

11. Notes receivable

Included in notes receivable is a promissory note in the amount of \$5.3 million due from a third-party. The note receivable bears interest at 5% per annum payable quarterly and is due on October 29, 2022. In addition, the Company sold selected assets of a wholly owned subsidiary during 2016, and as a result, a remaining non-interest bearing note receivable of \$500 is due in five annual payments.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

12. Property, plant and equipment

	Land	Grounds	Buildings	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
Balance, January 1, 2021	34,050	6,942	170,952	15,441	5,427	20,074	12,002	203,730	7,273	475,891
Additions	904	133	1,491	739	1,226	358	2,420	21,371	34	28,676
Acquisitions	—	—	—	—	26	—	19	—	—	45
Transfer from assets held for sale	121	20	386	—	—	—	—	—	—	527
Disposals	—	—	—	—	(25)	(878)	(192)	(1,284)	—	(2,379)
Impairment	—	—	(2,310)	—	—	—	—	—	—	(2,310)
Exchange differences	(721)	(83)	(2,892)	(99)	(134)	(97)	49	(4,809)	(129)	(8,915)
Balance, December 31, 2021	34,354	7,012	167,627	16,081	6,520	19,457	14,298	219,008	7,178	491,535
Depreciation										
Balance, January 1, 2021	—	2,255	25,096	3,201	2,328	8,742	6,890	72,846	—	121,358
Depreciation	—	579	4,566	1,557	687	2,030	1,752	13,741	—	24,912
Disposals	—	—	—	—	(15)	(510)	(187)	(1,133)	—	(1,845)
Impairment	—	—	(752)	—	—	—	—	—	—	(752)
Exchange differences	—	(27)	(228)	(4)	(28)	(45)	25	(1,141)	—	(1,448)
Balance, December 31, 2021	—	2,807	28,682	4,754	2,972	10,217	8,480	84,313	—	142,225
Net book value,										
January 1, 2021	34,050	4,687	145,856	12,240	3,099	11,332	5,112	130,884	7,273	354,533
Net book value, December 31, 2021	34,354	4,205	138,945	11,327	3,548	9,240	5,818	134,695	7,178	349,310

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

	Land	Grounds	Buildings	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
Balance, January 1, 2020	34,761	7,186	169,236	9,102	4,255	20,311	10,025	195,375	12,705	462,956
Additions	—	204	8,784	4,622	1,303	593	2,189	13,569	(3,201)	28,063
Leasehold improvements received	—	—	—	2,086	—	—	—	—	—	2,086
Acquisitions	—	—	—	—	46	—	17	—	—	63
Transfer from assets held for sale	—	—	375	—	—	—	—	—	—	375
Disposals	—	—	—	(62)	(135)	(591)	(93)	(635)	—	(1,516)
Impairment	(80)	(177)	(1,700)	—	—	—	—	—	—	(1,957)
Exchange differences	(631)	(271)	(5,743)	(307)	(42)	(239)	(136)	(4,579)	(2,231)	(14,179)
Balance, December 31, 2020	34,050	6,942	170,952	15,441	5,427	20,074	12,002	203,730	7,273	475,891
Depreciation										
Balance, January 1, 2020	—	1,699	20,419	2,020	1,918	6,935	5,614	60,673	—	99,278
Depreciation	—	608	5,094	1,252	527	2,217	1,451	14,493	—	25,642
Disposals	—	—	—	(29)	(107)	(256)	(85)	(429)	—	(906)
Exchange differences	—	(52)	(417)	(42)	(10)	(154)	(90)	(1,891)	—	(2,656)
Balance, December 31, 2020	—	2,255	25,096	3,201	2,328	8,742	6,890	72,846	—	121,358
Net book value,										
January 1, 2020	34,761	5,487	148,817	7,082	2,337	13,376	4,411	134,702	12,705	363,678
Net book value, December 31, 2020	34,050	4,687	145,856	12,240	3,099	11,332	5,112	130,884	7,273	354,533

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

During the year ended December 31, 2021, the manufacturing operation of a division was realigned and transitioned to another AGI division. As a result, an impairment loss of \$1,558 was recorded to adjust the carrying amount of the division's assets to its recoverable amount.

Capitalized borrowing costs

No borrowing costs were capitalized in 2021 or 2020.

13. Right-of-use assets

	Buildings	Furniture and fixtures	Vehicles	Manufacturing equipment	Total
	\$	\$	\$	\$	\$
Balance, January 1, 2020	7,596	421	443	893	9,353
Additions	6,122	186	747	225	7,280
Acquisitions	2,207	—	—	—	2,207
Termination	(46)	(26)	(10)	(8)	(90)
Depreciation	(2,787)	(189)	(429)	(530)	(3,935)
Exchange differences	(362)	(15)	(70)	(26)	(473)
Balance, December 31, 2020	12,730	377	681	554	14,342
Additions	4,656	173	2,372	1,103	8,304
Acquisitions	1,671	—	—	—	1,671
Termination	(151)	—	—	—	(151)
Depreciation	(3,386)	(182)	(526)	(525)	(4,619)
Exchange differences	(177)	(8)	(32)	(119)	(336)
Balance, December 31, 2021	15,343	360	2,495	1,013	19,211

14. Goodwill

	2021	2020
	\$	\$
Balance, beginning of year	350,669	351,573
Acquisitions <i>[note 6]</i>	11,795	5,012
Exchange differences	(3,854)	(5,916)
Balance, end of year	358,610	350,669

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

15. Intangible assets

	Distribution networks and customer relationships	Brand names	Patents	Software	Order backlog	Non-compete agreement	Development projects	Technology	CIP Intangibles	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
Balance, January 1, 2021	173,797	132,126	3,103	17,139	13,287	114	36,122	—	—	375,688
Internal development	91	—	2,870	418	—	—	13,427	—	84	16,890
Acquisitions	—	—	274	—	—	—	—	24,078	—	24,352
Impairment	(6,407)	(3,627)	—	—	—	—	—	—	—	(10,034)
Discontinued operations	—	—	—	—	—	—	(77)	—	—	(77)
Exchange differences	(1,364)	(1,021)	(1)	(119)	(231)	—	(4)	340	—	(2,400)
Balance, December 31, 2021	166,117	127,478	6,246	17,438	13,056	114	49,468	24,418	84	404,419
Amortization										
Balance, January 1, 2021	88,563	1,427	2,358	8,276	13,287	112	12,206	—	—	126,229
Amortization	13,321	1,608	166	3,850	—	2	7,897	5,674	—	32,518
Impairment	(4,402)	(2,116)	—	—	—	—	—	—	—	(6,518)
Discontinued operations	—	—	—	—	—	—	(77)	—	—	(77)
Exchange differences	(1,147)	(21)	(5)	575	(231)	—	(37)	91	—	(775)
Balance, December 31, 2021	96,335	898	2,519	12,701	13,056	114	19,989	5,765	—	151,377
Net book value, January 1, 2021	85,234	130,699	745	8,863	—	2	23,916	—	—	249,459
Net book value, December 31, 2021	69,782	126,580	3,727	4,737	—	—	29,479	18,653	84	253,042

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

	Distribution networks and customer relationships	Brand names	Patents	Software	Order backlog	Non-compete agreement	Development projects	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, January 1, 2020	175,164	135,810	3,068	12,203	13,419	114	27,275	367,053
Internal development	—	—	59	1,859	—	—	10,146	12,064
Acquisitions	—	—	—	3,322	—	—	—	3,322
Impairment <i>[note 16]</i>	—	(2,812)	—	—	—	—	(625)	(3,437)
Exchange differences	(1,367)	(872)	(24)	(245)	(132)	—	(674)	(3,314)
Balance, December 31, 2020	173,797	132,126	3,103	17,139	13,287	114	36,122	375,688
Amortization								
Balance, January 1, 2020	75,207	—	2,218	4,776	13,417	95	6,482	102,195
Amortization	14,218	1,441	164	3,677	2	17	6,175	25,694
Impairment <i>[note 16]</i>	—	—	—	—	—	—	(283)	(283)
Exchange differences	(862)	(14)	(24)	(177)	(132)	—	(168)	(1,377)
Balance, December 31, 2020	88,563	1,427	2,358	8,276	13,287	112	12,206	126,229
Net book value, January 1, 2020	99,957	135,810	850	7,427	2	19	20,793	264,858
Net book value, December 31, 2020	85,234	130,699	745	8,863	—	2	23,916	249,459

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

Intangible assets include patents acquired through business combinations, which have a remaining life between 2 and 8 years. Included within intangible assets are brand names with a carrying amount of \$124,400 [2020 – \$127,847] have been classified as indefinite-life intangible assets, as the Company expects to maintain these brand names and currently no end point of the useful lives of these brand names can be determined. Additionally, during the years ended December 31, 2021 and December 31, 2020, the Company identified brand names in which an end point of useful life could be determined. As at December 31, 2021, the carrying amount of definite-life intangible assets of \$2,180 [2020 – \$2,852] and remaining life of 4 years are included within intangible assets. The Company assesses the assumption of an indefinite useful life at least annually.

For intangible assets, the Company assesses whether there are indicators of impairment at each reporting date as a triggering event for performing an impairment test. During the year ended December 31, 2021, AGI announced that the operations of AGI Solutions, a division of the Company in its commercial segment, ceased effective November 30, 2021. As a result, during the year ended December 31, 2021, an impairment charge of \$3,516 against intangible assets was recorded in the consolidated financial statements.

Intangible assets and research and development expenses for the year ended December 31, 2021, are net of combined federal and provincial scientific research and experimental development [“SR&ED”] tax credits in the amounts of \$(79) and \$448, respectively. A number of specific criteria must be met in order to qualify for federal and provincial SR&ED investment tax credits. As at December 31, 2021, the Company had federal investment tax credit carryforwards in the amount of \$309 [2020 – \$908], federal SR&ED investment tax credit carryforwards in the amount of \$2,088 [2020 – \$1,340], provincial SR&ED investment tax credit carryforwards in the amount of \$768 [2020 – \$366] and provincial manufacturing or processing tax credits in the amount of \$96 [2020 – \$384]; these begin expiring in 2026.

Other significant intangible assets are the distribution network and customer relationships of the Company. The distribution network and customer relationships were acquired in past business combinations and reflect the Company’s dealer network in North America and its international customer base. The remaining amortization period for the distribution network and customer relationships ranges from 2 to 20 years. During the year ended December 31, 2021, the Company reclassified \$3,322 of intangible assets from development to software.

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

16. Impairment testing

The Company performs its annual goodwill impairment test as at December 31. The recoverable amount of the Company’s group of CGUs has been determined based on value in use for the year ended December 31, 2021, using cash flow projections covering a five-year period. The Company performs its indefinite-life intangible assets impairment test as at December 31; the indefinite-life intangible assets are tested at the individual CGU level.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The pre-tax discount rates applied to the cash flow projections for Farm, Commercial and Digital are 10.2%, 10.3%, and 18.9%, respectively [2020 – 10.4%, 10.8%, n/a], and cash flows beyond the five-year period are extrapolated using a 2% growth rate [2020 – 2%], which is management's estimate of long-term inflation and productivity growth in the industry and geographies in which it operates.

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

	2021	2020
	\$	\$
Farm		
Goodwill	132,335	132,342
Intangible assets with indefinite lives	77,577	77,612
Commercial		
Goodwill	193,937	200,571
Intangible assets with indefinite lives	44,691	48,096
Digital		
Goodwill	32,338	17,756
Intangible assets with indefinite lives	2,132	2,139
Total		
Goodwill	358,610	350,669
Intangible assets with indefinite lives	124,400	127,847

The values of significant indefinite-life intangible assets are held by the Westfield and Westeel CGUs, the values of which are \$19,000 and \$43,300, respectively.

Key assumptions used in valuation calculations

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

- Gross margins;
- Discount rates; and
- Revenue growth rate used to extrapolate cash flows beyond the budget period.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Gross margins

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

Discount rates

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

Revenue and terminal growth rate estimates

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

17. Accounts payable and accrued liabilities

	2021	2020
	\$	\$
Trade payables	100,700	77,161
Other payables	42,068	25,237
Personnel-related accrued liabilities	50,562	33,883
Accrued outstanding service invoices	2,316	2,817
	<u>195,646</u>	<u>139,098</u>

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

18. Provisions

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

	2021	2020
	\$	\$
Balance, beginning of year	83,361	17,539
Additional provisions recognized	37,225	88,386
Amounts utilized	(54,968)	(22,564)
Balance, end of year	65,618	83,361

Remediation costs

As previously disclosed, over the period of 2019-2020, AGI entered into agreements to supply 35 large hopper bins [the "Bins"] for installation by third parties on two grain storage projects. In 2020, one of the Bins erected at one of these projects ["Customer A"] collapsed during commissioning [the "Incident"]. The Incident did not result in any injuries and AGI immediately issued a demand to suspend use of the Bins at both projects. A total of 15 Bins are located at Customer A's site and 20 Bins are located at the second site ["Customer B"].

AGI agreed on a remediation plan with Customer B and completed extensive product revisions, remediation and testing during 2021. Subsequent to year-end, AGI announced the successful completion of the remediation at Customer B's site.

Customer A has proceeded to conduct remediation of the Bins themselves by replacing the Bins with another equipment solution.

In 2021, two legal claims related to the Incident were initiated against AGI for a cumulative amount in excess of \$190 million. The claim by Customer A is in excess of \$80 million. In addition, claims have been made by a second claimant [a customer of Customer A with respect to the Incident site] seeking damages of \$110 million against AGI. AGI had no contractual relationship with the second claimant and is defending the claims as being remote, not proximate and without merit. AGI has legal and contractual defenses to these legal claims, has filed defenses and will fully and vigorously defend itself.

Customer A has also made a separate legal claim against its own insurance broker over coverage they allege the broker failed to put in place, causing Customer A to suffer damages and uninsured losses. Customer A was required to maintain this insurance coverage under the Customer A's contract with AGI and was required to name AGI as an additional insured.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

During the year ended December 31, 2021, an additional provision of \$16.1 million was recorded for revised cost estimates in the audited consolidated financial statements. As at December 31, 2021, the warranty provision for the estimated remediation costs is \$42.4 million [December 31, 2020 – \$69.7 million], with \$43.4 million of the provision having been utilized during the year ended December 31, 2021.

The provision for remediation at Customer A's site requires significant estimates and judgments about the scope, nature, timing and cost of investigation and remediation work required. It is based on management's assumptions and estimates at the current date with the cause and determination of responsibility an area of significant estimation uncertainty as the investigation has not been completed and causation has not been determined.

AGI, in consultation with its advisors, has estimated various probability weighted scenarios, including investigation and remediation costs, at the Incident site. Key assumptions included, the degree of liability if any, the estimated number of third-party investigation and legal hours, estimated volume of materials and materials costs, estimated internal and external labour hours, equipment costs and third-party construction costs. As investigation of the incident continues, the provision is subject to revision in the future as further information becomes available, the impact of which could be material.

The provision is based on management's assessment of the remaining scope, nature, and timing of the work outstanding and has been revised based on experience gained and lessons learned from the successful completion and costs incurred in the reinforcement and commissioning of Customer B's site during the year. In addition, management has considered the merits of related legal claims and have taken them into consideration in assessing its exposure.

AGI continues to believe that any financial impact will be, at least, partially offset by insurance coverage. AGI is working with insurance providers and external advisors to determine the extent of this cost offset. Insurance recoveries, if any, will be recorded when received.

Equipment rework

The provision for equipment rework relates to previously identified issues with equipment designed and supplied to a customer's commercial facility. During the year ended December 31, 2021, an additional provision of \$10 million was recorded as result of revised cost estimates. As at December 31, 2021, the warranty provision for the equipment rework is \$11.8 million [2020 – \$4.5 million], with \$2.7 million of the provision having been utilized during the year.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

19. Lease liability

	Incremental borrowing rate %	Maturity	2021 \$	2020 \$
Current	1.7 – 29.3	2022	5,016	3,027
Non-current	1.7 – 29.3	2023 – 2030	17,263	13,815
Lease liability			22,279	16,842

The Company has various lease contracts that have not yet commenced as at December 31, 2021. The future lease payments for the non-cancellable lease contracts are nil within one year and \$2,264 within five years.

20. Long-term debt

	Interest rate %	Maturity	2021 \$	2020 \$
Current portion of long-term debt				
Equipment financing	Nil		532	475
			532	475
Non-current portion of long-term debt				
Equipment financing	Nil	2025	1,774	917
Series B secured notes	4.4 – 5.2	2025	25,000	25,000
Series C secured notes [U.S. dollar denominated]	3.7 – 4.5	2026	31,695	31,830
Canadian Revolver	3.5 – 6.5	2025	176,417	151,528
U.S. Revolver	2.1 – 4.8	2025	201,834	202,693
			436,720	411,968
Less deferred financing costs			(2,711)	(3,070)
			434,009	408,898
Long-term debt			434,541	409,373

[a] Bank indebtedness

AGI has a swing line of \$40.0 million and U.S. \$10.0 million. The facilities bear interest at prime plus 0.45% to prime plus 1.5% per annum based on performance calculations. As at December 31, 2021, there was nil [2020 – nil] outstanding under the swing line.

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

[b] Long-term debt

On April 29, 2021, the Company's one-year liquidity facility matured. Upon maturity, the Company's liquidity agreement was incorporated into the existing revolver facility through the accordion feature. As a result, \$50 million was added to the Company's Canadian revolver availability. The maturity date of the revolver facility remains unchanged at March 20, 2025. In addition, the Company drew \$40 million from its Canadian revolver, of which \$15 million was repaid during the year ended December 31, 2021.

AGI's revolver facilities of \$275 million and U.S. \$215 million are inclusive of amounts that may be allocated to the Company's swing line and can be drawn in Canadian or U.S. funds. The facilities bear interest at BA or LIBOR plus 1.2% to BA or LIBOR plus 2.5% and prime plus 0.2% to prime plus 1.5% per annum based on performance calculations. The combined effective interest rate for the year ended December 31, 2021 on AGI's revolver facilities was 2.56% [2020 – 3.92%]. As at December 31, 2021, there was \$378 million [2020 – \$354 million] outstanding under these facilities. Interest on a portion of the revolver line has been fixed at 4.7% through an interest rate swap contract [note 30[a]]. Collateral for the revolving line ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

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

The Series C secured notes were issued on October 31, 2016. The non-amortizing notes bear interest at 3.7% payable quarterly and mature on October 31, 2026. The Series C secured notes are denominated in U.S. dollars. Collateral for the Series C secured notes and term loans ranks pari passu and includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

[c] Covenants

AGI is subject to certain financial covenants in its credit facility agreements that must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require AGI to maintain a debt to Consolidated EBITDA, as defined in the credit facility agreement, a ratio of less than 3.25, the calculation of which excludes the convertible unsecured subordinated debentures and the senior unsecured subordinated debentures from debt, and to provide debt service coverage of a minimum of 1.0. In the event of an acquisition in respect of which the aggregate consideration is \$75,000 or greater, the debt to Consolidated EBITDA ratio requirement increases to 3.75 or less for the financial quarter and the three following financial quarters in which the acquisition occurred.

As at December 31, 2021 and December 31, 2020, AGI was in compliance with all financial covenants.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

21. Convertible unsecured subordinated debentures

	2021	2020
	\$	\$
Current portion of convertible unsecured subordinated debentures	84,913	—
Non-current portion of convertible unsecured subordinated debentures		
Principal amount	115,000	172,475
Equity component	(16,318)	(6,351)
Accretion	377	4,091
Financing fees, net of amortization	(4,439)	(2,896)
	<u>94,620</u>	<u>167,319</u>
Convertible unsecured subordinated debentures	179,533	167,319

Year issued	Aggregate principal amount	Coupon	Conversion price	Conversion rate ⁽¹⁾	Number of common shares reserved for issuance upon conversion	Maturity date	Redeemable at par ⁽²⁾⁽³⁾
	\$		\$				
2018	86,250	4.50%	88.15	11.3443	978,446	31-Dec-22	01-Jan-22
2021	115,000	5.00%	45.14	22.1533	2,547,630	30-Jun-27	30-Jun-25

¹ During the year ended December 31, 2021, a holder of the 2017 Debentures converted \$41,892 into common shares.

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

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Issuance of 2021 convertible unsecured subordinated debentures

On October 14, 2021, AGI entered into an agreement with a syndicate of underwriters pursuant to which AGI issued on November 3, 2021 on a “bought deal” basis \$100 million aggregate principal amount of convertible unsecured subordinated debentures [the “Debentures”] at a price of \$1,000 per Debenture [the “Offering”]. On November 9, 2021, AGI issued an additional \$15 million aggregate principal amount of Debentures at the same price pursuant to the exercise of the over-allotment option granted by AGI to the underwriters. With the full exercise of the over-allotment option, the total gross proceeds from the Offering to AGI were \$115 million.

The Debentures bear interest from the date of issue at 5.00% per annum, payable semi-annually in arrears on June 30 and December 31 each year, commencing June 30, 2022. The Debentures will have a maturity date of June 30, 2027 [the “Maturity Date”].

The 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 Debentures into fully paid and non-assessable common shares of the Company at a conversion price of \$45.14 per Common Share [the “Conversion Price”], being a conversion rate of approximately 22.1533 Common Shares for each \$1,000 principal amount of Debentures.

The Debentures are not redeemable by the Company before June 30, 2025. On and after June 30, 2025 and prior to June 30, 2026, the Debentures may be redeemed in whole or in part from time to time at AGI’s option 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 on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the Conversion Price. On and after June 30, 2026, the Debentures may be redeemed in whole or in part from time to time at AGI’s option at a price equal to their principal amount, plus accrued and unpaid interest, regardless of the trading price of the Common Shares.

The net proceeds of the Offering will be used to partially repay outstanding indebtedness under the Company’s revolving credit facilities, a portion of which will then be redrawn to fund the redemption of the Company’s 4.85% convertible unsecured subordinated debentures due June 30, 2022 and for general corporate purposes.

Redemption of 2017 Debentures

On November 16, 2021, the Company redeemed its 4.85% convertible unsecured subordinated debentures due June 30, 2022 [“2017 Debentures”] in accordance with the terms of the supplemental trust indenture. Upon redemption, AGI paid to the holders of the 2017 Debentures the redemption price of \$87,775 equal to the outstanding principal amount of the 2017 Debentures redeemed including accrued and unpaid interest up to but excluding the redemption date, less taxes deducted or withheld. A loss of \$676 was recorded to loss on financial instruments, and the equity component of the 2017 Debentures was reclassified to contributed surplus.

The Company expensed the remaining unamortized balance of \$602 of deferred fees related to the 2017 Debentures. The expense was recorded to finance costs in the consolidated statements of income (loss).

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

Year issued	Aggregate principal amount \$	Offering costs \$	Equity component \$
2017	86,250	3,673	4,290
2018	86,250	3,957	2,063
2021	115,000	4,548	16,318

The liability component is accreted using the effective interest rate method. The equity component of \$12,905 [2020 – \$4,427] on the consolidated statements of financial position is net of income taxes of \$4,624 [2020 – \$1,636] and its pro rata share of financing costs of \$852 [2020 – \$290].

During the year ended December 31, 2021, the Company recorded accretion, non-cash interest expense relating to financing costs, and interest expense on the coupon of:

Year issued	2021		
	Accretion \$	Non-cash interest expense \$	Interest expense \$
2017	672	576	3,682
2018	433	834	3,881
2021	377	109	958

During the year ended December 31, 2020, the Company recorded accretion, non-cash interest expense relating to financing costs, and interest expense on the coupon of:

Year issued	2020		
	Accretion \$	Non-cash interest expense \$	Interest expense \$
2017	853	731	4,182
2018	412	790	3,881

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

22. Senior unsecured subordinated debentures

	2021	2020
	\$	\$
Principal amount	257,500	257,500
Debenture put options, net of amortization	550	661
Financing fees, net of amortization	(7,178)	(9,082)
Senior unsecured subordinated debentures	250,872	249,079

Year issued	Aggregate principal amount	Coupon	Maturity date	Redeemable
	\$	%		
2019 March	86,250	5.40%	30-Jun-24	30-Jun-22 ⁽¹⁾⁽³⁾
2019 November	86,250	5.25%	31-Dec-24	31-Dec-22 ⁽²⁾⁽⁴⁾
2020 March	85,000	5.25%	31-Dec-26	31-Dec-22 ⁽³⁾⁽⁴⁾

¹ On and after June 30, 2022 and prior to June 30, 2023, the Debentures may be redeemed at the Company's option at a price equal to 102.70% of their principal amount plus accrued and unpaid interest. On or after June 30, 2023, the 2019 Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.

² On and after December 31, 2022 and prior to December 31, 2023, the Debentures may be redeemed at the Company's option at a price equal to 102.625% of their principal amount plus accrued and unpaid interest. On or after December 31, 2023, the Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest.

³ On and after December 31, 2022 and prior to December 31, 2023, the Debentures may be redeemed at the Company's option at a price equal to 103.9375% of their principal amount plus accrued and unpaid interest. On and after December 31, 2023 and prior to December 31, 2024, the Debentures may be redeemed at the Company's option at a price equal to 102.625% of their principal amount plus accrued and unpaid interest. On and after December 31, 2024 and prior to December 31, 2025, the Debentures may be redeemed at the Company's option at a price equal to 101.3125% of their principal amount plus accrued and unpaid interest. On and after December 31, 2025 and prior to maturity, the Debentures will be redeemable at the Company's option at a price equal to their principal amount plus accrued and unpaid interest. The Debentures will not be convertible into common shares of the Company at the option of the holders at any time.

⁴ The Company will have the option to satisfy its obligation to repay the principal amount of the Debentures due at redemption or maturity by issuing and delivering that number of freely tradeable common shares in accordance with the terms of the Indenture.

The Company's redemption option for the 2020 Debentures resulted in recognition of an embedded derivative with a fair value of \$754 at time of issuance [note 30[a]]. An offsetting and equal amount was recorded to senior unsecured subordinated debentures and will be amortized over the term of the 2020 Debentures.

During the year ended December 31, 2021, the Company recorded non-cash interest expense of \$1,867 [2020 – \$1,688] relating to financing costs and interest expense on the coupon of \$13,648 [2020 – \$13,368], offset by amortization of the embedded derivative of \$112 [2020 – \$93].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

23. Shareholders' equity

[a] Common shares

Authorized

Unlimited number of voting common shares without par value

Issued

18,793,570 common shares

	Shares #	Amount \$
Balance, January 1, 2020	18,658,479	455,857
Settlement of EIAP obligation	59,936	5,642
Reduction in stated capital	—	(459,769)
Balance, December 31, 2020	18,718,415	1,730
Settlement of EIAP obligation	74,653	3,461
Convertible unsecured subordinated debentures	502	42
Balance, December 31, 2021	18,793,570	5,233

On May 19, 2020, the Company's shareholders voted to reduce the stated capital account maintained in respect of common shares to \$1 without payment or distribution to shareholders. A corresponding increase was made to the Company's contributed surplus.

[b] Contributed surplus

	2021 \$	2020 \$
Balance, beginning of year	487,540	27,113
Equity-settled director compensation [note 24[a]]	287	626
Dividends on EIAP	261	358
Obligation under EIAP [note 24[a]]	7,820	5,802
Settlement of EIAP obligation	(4,193)	(8,432)
Redemption of convertible unsecured subordinated debentures	2,969	2,304
Reduction in stated capital	—	459,769
Balance, end of year	494,684	487,540

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

[c] Accumulated other comprehensive loss

Accumulated other comprehensive loss comprises of the following:

Foreign currency translation reserve

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

Defined benefit plan reserve

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

[d] Dividends paid and proposed

In the year ended December 31, 2021, the Company declared dividends of \$11,271 or \$0.60 per common share [2020 – \$19,635 or \$1.05 per common share] and dividends on share compensation awards of \$261 [2020 – \$358]. In the year ended December 31, 2021, dividends paid to shareholders were financed \$11,261 [2020 – \$20,558] from cash on hand.

On April 14, 2020, the Company announced a reduction of its dividend from an annual level of \$2.40 to \$0.60 per common share. At the same time, the dividend moved from monthly to quarterly payments and accordingly the dividend of \$0.15 per share relates to the months of October, November, and December 2021. The dividend is payable on January 15, 2022 to common shareholders of record at the close of business on December 31, 2021.

[e] Shareholder protection rights plan

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

[f] Preferred shares

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

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

As at December 31, 2021 and December 31, 2020, no preferred shares were issued or outstanding.

24. Share-based compensation plans

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

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

As at December 31, 2021, 1,565,000 shares are reserved for issuance under the EIAP [December 31, 2020 – 1,910,000 shares]. At the discretion of the Board, the EIAP provides for cumulative adjustments to the number of common shares to be issued pursuant to, or the value of, Awards on each date that dividends are paid on the common shares. The EIAP provides for accelerated vesting in the event of a change in control, retirement, death or termination without cause.

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

Each PSU requires the Company to deliver to the holder at the Company's discretion either the number of common shares designated in the PSU multiplied by a Payout Multiplier or the equivalent amount in cash. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined measures in respect of the applicable period. The Payout Multiplier may not exceed 200%.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

As at December 31, 2021, 880,064 [2020 – 742,477] RSUs and 886,280 [2020 – 723,585] PSUs have been granted. The Company has accounted for the EIAP as an equity-settled plan. The fair values on grant date of the RSUs and the PSUs were based on the share price as at the grant date and the assumption that there will be no forfeitures. During the year ended December 31, 2021, AGI expensed \$7,820 for the EIAP [2020 – \$8,229].

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

	EIAP	
	Restricted Awards	Performance Awards
	#	#
Balance, January 1, 2020	244,408	109,497
Granted	224,578	60,178
Vested	(70,582)	(7,108)
Forfeited	(6,724)	(892)
Modified	(82,952)	—
Cancelled	—	(58,501)
Balance, December 31, 2020	308,728	103,174
Granted	153,590	162,695
Vested	(65,284)	(81,163)
Forfeited	(11,600)	(114,267)
Balance, December 31, 2021	385,434	70,439

There is no exercise price on the EIAP awards.

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

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

During the year ended December 31, 2021, the Company adopted a cash-settled DDCP for non-employee directors; as a result, for the year ended December 31, 2021, an expense of \$731 [2020 – \$626] was recorded for the share grants of which \$444 is recorded in accounts payable and accrued liabilities for cash-settled and \$287 is recorded in contributed surplus for equity-settled. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 120,000, subject to adjustment in lieu of dividends, if applicable. For the year ended December 31, 2021, 6,987 [2020 – 25,068] common shares were granted under the DDCP, and as at December 31, 2021, a total of 120,000 [2020 – 113,013] common shares had been granted under the DDCP and 19,788 [2020 – 18,436] common shares had been issued.

[c] Share Option Plan

On March 23, 2021, the Board approved the adoption of a new fixed number share option plan for AGI which was ratified and approved by the Company's shareholders at the annual meeting on May 12, 2021 (the "Option Plan") under which 500,000 common shares have been authorized for issuance. The Option Plan authorizes the Board to grant options to eligible officers and employees of the Company.

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

For the year ended December 31, 2021, an expense of \$8,551 [2020 – \$8,854] was recognized for employee and Director services rendered.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

25. Other expenses (income)

	2021	2020
	\$	\$
[a] Cost of goods sold		
Depreciation of property, plant, and equipment	21,711	22,853
Depreciation of right-of-use assets	1,305	1,431
Amortization of intangible assets	10,990	4,243
Warranty expense	37,225	88,386
Cost of inventory recognized as an expense	823,277	670,427
	894,508	787,340
[b] Selling, general and administrative expenses		
Depreciation of property, plant and equipment	3,201	2,789
Depreciation of right-of-use assets	3,314	2,504
Amortization of intangible assets	21,528	21,451
Minimum lease payments recognized as lease expense	45	196
Transaction costs and post-combination expense	15,093	16,062
Selling, general and administrative	213,163	182,817
	256,344	225,819
[c] Other operating expense (income)		
Net loss on sale of property, plant and equipment	23	187
Net gain on settlement of lease liability	(17)	(3)
Loss (gain) on financial instruments	(1,382)	14,502
Foreign exchange reclassification on disposal of foreign operation	(898)	—
Other	(5,025)	(4,152)
	(7,299)	10,534
[d] Finance costs		
Interest on overdrafts and other finance costs	1,239	1,374
Interest, including non-cash interest, on leases	1,084	876
Interest, including non-cash interest, on debts and borrowings	13,747	19,142
Interest, including non-cash interest, on senior and convertible unsecured subordinated debentures [notes 21 and 22]	27,529	25,300
	43,599	46,692
[e] Finance expense (income)		
Interest income	(377)	(444)
Loss on foreign exchange	2,992	1,730
	2,615	1,286
[f] Employee benefits expense		
Wages and salaries	288,460	260,994
Share-based compensation expense [note 24]	8,551	8,854
Pension costs	6,904	6,679
	303,915	276,527
Included in cost of goods sold	182,977	169,741
Included in selling, general and administrative expense	120,938	106,786
	303,915	276,527

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

In response to COVID-19, the Government of Canada implemented the Canadian Emergency Wage Subsidy ["CEWS"] and the Canada Emergency Rent Subsidy ["CERS"] programs. Similarly, in the United Kingdom, the Coronavirus Job Retention Scheme ["CJRS"] was implemented in response to COVID-19. The CEWS and CJRS programs offer qualifying organizations government assistance in the form of a payroll subsidy to offset the cost of employees. The CERS program offers qualifying organizations government assistance in the form of reimbursements for rent paid during a period. There are no unfulfilled conditions attached to this government assistance. For the year ended December 31, 2021, \$558 [2020 – \$1.9 million] has been recorded as an offset to cost of goods sold and selling, general, and administrative expenses and all amounts claimed were received in full.

26. Retirement benefit plans

AGI contributes to group retirement savings plans subject to maximum limits per employee. The expense recorded during the year ended December 31, 2021 was \$6,904 [2020 – \$6,679]. AGI expects to contribute \$7,180 for the year ending December 31, 2022.

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

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

The Company's defined benefit pension plan measures the respective accrued benefit obligation and the fair value of plan assets at December 31 of each year. Actuarial valuations are performed annually or triennially as required. The Company's registered defined benefit plan was last valued on December 31, 2019. The present value of the defined obligation, and the related current service cost and past service cost, was measured using the Unit Credit Method.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The liabilities were revalued at December 31, 2021. The Company has used the same methods and assumptions used at December 31, 2020 for the purpose of estimating the liabilities at December 31, 2021. The following assumptions were used to determine the periodic pension expense and the net present value of the accrued pension obligations:

	2021 %	2020 %
Expected long-term rate of return on plan assets	3.00	2.50
Discount rate on benefit costs	3.00	2.50
Discount rate on accrued pension and post-employment obligations	3.00	2.50
Rate of compensation increases	n/a	n/a

The weighted average duration of the defined benefit obligation as of December 31, 2021 is 14.8 years [2020 – 15.4 years]. Compensation increases were not included in the valuation of the accrued pension obligation because the accrued benefit is not a function of salary. All members receive a fixed benefit rate monthly for each year of credited service. This same benefit rate is received by all plan members regardless of salary level.

The following table outlines the key assumptions for 2021 and the sensitivity of changes in each of these assumptions on the defined benefit plan obligation. The sensitivity analysis is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Increase in assumption \$	Decrease in assumption \$
Impact of 0.5% increase/decrease in discount rate assumption	(930,272)	1,029,452
Impact of one-year increase/decrease in life expectancy assumption	399,650	(427,448)

The net expense of \$144 [2020 – \$132] for the year is included in cost of goods sold.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

	2021	2020
	\$	\$
Plan assets		
Fair value of plan assets, beginning of year	14,600	13,969
Interest income on plan assets	357	424
Actual return on plan assets	1,413	844
Employer contributions	9	—
Benefits paid	(771)	(637)
Fair value of plan assets, end of year	15,608	14,600
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	15,371	14,115
Current service cost	125	125
Interest cost	378	431
Actuarial losses (gains) from changes in financial assumptions	(1,031)	1,273
Actuarial losses from experience adjustments	—	64
Benefits paid	(771)	(637)
Accrued benefit obligation, end of year	14,072	15,371
Net accrued benefit asset (liability)	1,536	(771)

The net accrued benefit asset (liability) of \$1,536 [2020 – \$(771)] is included in other assets (other financial liabilities).

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

	2021		2020	
	\$	%	\$	%
Canadian equity securities	4,682	30.0	4,336	29.7
U.S. equity securities	2,716	17.4	2,570	17.6
International equity securities	2,716	17.4	2,570	17.6
Fixed-income securities	5,494	35.2	5,124	35.1
	15,608	100.0	14,600	100.0

Management's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation. The actual return on plan assets was a gain of \$1,413 [2020 – \$844].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

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

The Company expects to make contributions of nil [2021 – nil] to the defined benefit plan in 2022. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

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

Asset volatility

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

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

Change in fixed-income security yields

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

Life expectancy

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

27. Income taxes

The major components of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

Consolidated statements of income (loss)

	2021	2020
	\$	\$
Current income tax expense		
Current income tax expense	9,445	7,089
Deferred tax recovery		
Origination and reversal of temporary differences	(10,620)	(26,407)
Income tax recovery reported in the consolidated statements of income (loss)	<u>(1,175)</u>	<u>(19,318)</u>

Consolidated statements of comprehensive income

	2021	2020
	\$	\$
Deferred tax related to items charged or credited directly to other comprehensive income during the year		
Defined benefit plan reserve	648	(131)
Exchange differences on translation of foreign operations	(456)	(252)
Income tax charged (credited) directly to other comprehensive income	<u>192</u>	<u>(383)</u>

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
	\$	\$
Profit (loss) before income taxes	9,383	(80,966)
At the Company's statutory income tax rate of 26.5% [2020 – 26.5%]	2,486	(21,456)
Tax rate changes	(260)	(1,142)
Tax losses (recognized) not recognized as a deferred tax asset	(2,950)	1,092
Foreign rate differential	(191)	385
Non-deductible EIAP expense	53	(106)
State income tax, net of federal tax benefit	126	82
Unrealized foreign exchange loss (gain)	128	(1,222)
Permanent differences and others	(567)	3,049
At the effective income tax rate of 12.52% [2020 – 23.86%]	(1,175)	(19,318)

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

	Consolidated statements of financial position		Consolidated statements of income (loss)	
	2021	2020	2021	2020
	\$	\$	\$	\$
Property, plant and equipment	(40,991)	(39,386)	1,703	645
Intangible assets	(46,328)	(43,712)	(1,820)	(1,556)
Deferred financing costs	(467)	109	576	737
Accruals and long-term provisions	28,649	29,174	1	(19,359)
Tax loss carryforwards starting to expire in 2039	18,847	6,523	(11,692)	(2,142)
Capitalized development expenditures	(4,677)	(4,278)	399	(389)
Convertible debentures	(4,199)	(427)	(322)	(721)
Derivative instruments	89	203	114	(263)
EIAP liability	2,565	2,027	(452)	(415)
Equity swap	1,283	1,700	417	(3,196)
Exchange difference on translation of foreign operations	—	—	456	252
Deferred tax recovery			(10,620)	(26,407)
Deferred tax liabilities, net	(45,229)	(48,067)		
Reflected in the consolidated statements of financial position as follows				
Deferred tax asset	5,556	964		
Deferred tax liability	(50,785)	(49,031)		
Deferred tax liabilities, net	(45,229)	(48,067)		

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Reconciliation of deferred tax liabilities, net

	2021	2020
	\$	\$
Balance, beginning of year	(48,067)	(74,115)
Deferred tax recovery during the year recognized in profit or loss	10,620	26,407
Deferred tax liability set up on business acquisition	(3,582)	(833)
Deferred tax expense during the year recognized in equity component of convertible debentures	(4,094)	—
Deferred tax recovery during the year recognized in contributed surplus	86	91
Deferred tax recovery (expense) during the year recognized in other comprehensive income	(192)	383
Balance, end of year	(45,229)	(48,067)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences and loss carryforwards become deductible. Based on the analysis of taxable temporary differences and future taxable income, management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities incurred, other than the following temporary differences:

- Canadian operations of \$7,589 non-capital loss carryforwards [2020 – \$4,726] which would start to expire in 2040, and \$16,767 capital loss carryforwards [2020 – nil], no expiry;
- US operations of \$35,905 USD [2020- nil], no expiry;
- UK operations of £695 GBP [2020 – nil], no expiry; and
- Brazilian operations of 16,225 BRL [2020 – 88,897 BRL], no expiry.

Accordingly, the Company has recorded a deferred tax asset for all other deductible temporary differences as at December 31, 2021 and as at December 31, 2020.

The temporary differences associated with investments in subsidiaries and associate, for which a deferred tax asset has not been recognized, aggregate to nil [2020 – \$4,432].

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

could change in the future, and that changes to these amounts could have a material effect on these consolidated financial statements.

There are no income tax consequences to the Company attached to the payment of dividends in either 2021 or 2020 by the Company to its shareholders.

28. Profit (loss) per share

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

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

	2021	2020
	\$	\$
Profit (loss) attributable to shareholders for basic profit (loss) per share	10,558	(61,648)
Convertible debentures	358	—
Profit (loss) attributable to shareholders for diluted profit (loss) per share	10,916	(61,648)
Basic weighted average number of shares	18,778,726	18,703,669
Dilutive effect of DDCP	108,713	—
Dilutive effect of RSU	441,680	—
Dilutive effect of 2021 Debentures	2,547,630	—
Diluted weighted average number of shares	21,876,749	18,703,669
Profit (loss) per share		
Basic	0.56	(3.30)
Diluted	0.50	(3.30)

The DDCP and RSU were excluded from the calculation of diluted profit (loss) per share in the year ended December 31, 2020, because their effect is anti-dilutive. The 2018 Debenture was excluded from the calculation of diluted profit (loss) per share in the years ended December 31, 2021 and December 31, 2020, because their effect is anti-dilutive.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

29. Statements of cash flows

[a] Net change in non-cash working capital

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

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

	2021	2020
	\$	\$
Accounts receivable	(29,883)	(18,953)
Inventory	(63,923)	(9,201)
Prepaid expenses and other assets	(5,758)	3,013
Accounts payable and accrued liabilities	56,891	33,423
Customer deposits	39,468	6,425
Provisions	(17,746)	65,352
	<u>(20,951)</u>	<u>80,059</u>

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

[b] Reconciliation of liabilities arising from financing activities

	December 31, 2020	Cash flows	Non-cash changes							December 31, 2021	
			Acquisitions	Additions	Foreign exchange	Accretion	Amortization	Conversion	Equity component		Other
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Long-term debt	409,373	25,556	—	—	(1,062)	—	674	—	—	—	434,541
Convertible unsecured subordinated debentures	167,319	23,833	—	—	—	1,481	2,123	(42)	(16,318)	1,137	179,533
Senior unsecured subordinated debentures	249,079	(153)	—	—	—	—	1,755	—	—	191	250,872
Lease liability	16,842	(4,045)	1,671	8,304	(493)	—	—	—	—	—	22,279
Total liabilities from financing activities	842,613	45,191	1,671	8,304	(1,555)	1,481	4,552	(42)	(16,318)	1,328	887,225

	December 31, 2019	Cash flows	Non-cash changes							December 31, 2020	
			Acquisitions	Additions	Foreign exchange	Accretion	Amortization	Fair value	Other		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Long-term debt	393,128	21,039	—	—	(5,465)	—	671	—	—	—	409,373
Convertible unsecured subordinated debentures	238,833	(75,031)	—	—	—	1,275	1,520	—	722	—	167,319
Senior unsecured subordinated debentures	165,474	80,979	—	—	—	—	1,595	754	277	—	249,079
Lease liability	9,349	(3,433)	2,207	9,481	(762)	—	—	—	—	—	16,842
Total liabilities from financing activities	806,784	23,554	2,207	9,481	(6,227)	1,275	3,786	754	999	—	842,613

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

30. Financial instruments and financial risk management

[a] Management of risks arising from financial instruments

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

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

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

Market risk

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

Foreign currency risk

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

During the year ended December 31, 2021, the Company entered into a short-term forward contract that resulted in a loss of \$138, which has been recorded in loss (gain) on financial instruments in the consolidated statements of income (loss).

The Company had one outstanding foreign exchange forward contract at December 31, 2021 with a fair value of \$(138).

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

A significant part of the Company's sales is transacted in U.S. dollars and Euros and, as a result, fluctuations in the rate of exchange between the U.S. dollar, the Euro and Canadian dollar can have a significant effect on the Company's cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, AGI denominates a portion of its debt in U.S. dollars. As at December 31, 2021, AGI's U.S. dollar denominated debt totalled \$205 million [2020 – \$205 million].

AGI's sales denominated in U.S. dollars for the year ended December 31, 2021 were \$498 million [2020 – U.S. \$400 million], and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency was U.S. \$383 million [2020 – U.S. \$303 million]. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$49.8 million increase or decrease in sales and a total increase or decrease of \$38.3 million in its cost of goods sold and its selling, general and administrative expenses.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as AGI regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. AGI's Series B secured notes, Series C secured notes, convertible unsecured subordinated debentures and senior unsecured subordinated debentures outstanding at December 31, 2021 and December 31, 2020 are at a fixed rate of interest.

Interest rate swap contracts

The Company enters into interest rate swap contracts to manage its exposure to fluctuations in interest rates on its core borrowings. The interest rate swap contracts are derivative financial instruments and changes in the fair value were recognized as a gain (loss) on financial instruments in other operating expense (income). Through these contracts, the Company agreed to receive interest based on the variable rates from the counterparty and pay interest based on fixed rates of 4.1%. The notional amounts are \$40,000 in aggregate, resetting the last business day of each month. The contracts expire in May 2022.

During the year ended December 31, 2021, an unrealized gain (loss) of \$572 [2020 – \$(995)] was recorded in gain (loss) on financial instruments in other operating expense (income). As at December 31, 2021, the fair value of the interest rate swap was \$(199) [2020 – \$(771)].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

The open interest rate swap contracts as at December 31, 2021 are as follows, for which no hedge accounting is applied:

	Maturity date	Contract rate %	Notional amount \$	Fair value \$
Canadian dollar contracts	May 2022	4.1%	40,000	(199)

The open interest rate swap contracts as at December 31, 2020 are as follows:

	Maturity date	Contract rate %	Notional amount \$	Fair value \$
Canadian dollar contracts	May 2022	3.6 – 4.1	40,000	(771)

Equity swap

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

As at December 31, 2021, the equity swap agreement covered 722,000 common shares of the Company at a price of \$38.76, and the agreement matures on May 7, 2024.

During the year ended December 31, 2021, an unrealized gain (loss) of \$1,350 [2020 – \$(12,007)] was recorded in gain (loss) on financial instruments in other operating expense (income). As at December 31, 2021, the fair value of the equity swap was \$(5,036) [2020 – \$(6,386)].

Debenture put options

On March 5, 2020, the Company issued the 2020 Debentures. Beginning on and after December 31, 2022, the Company has the option of early redemption. At time of issuance, the Company’s redemption option resulted in an embedded derivative with a fair value of \$754. During the year ended December 31, 2021, a gain (loss) of \$274 [2020 – \$(754)] was recorded in gain (loss) on financial instruments in other operating expense (income). As at December 31, 2021, the fair value of the embedded derivative was \$274 [2020 – nil].

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Credit risk

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

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

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

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

The Company's interest rate swap and equity swap agreements are also exposed to the credit risk of its counterparties. The Company only enters into agreements with major financial institutions that meet or exceed its minimal credit rating requirements, and the Company regularly monitors for changes in the credit risk of our counter parties.

In addition, with regard to the conflict between Russia and Ukraine subsequent to the year ended December 31, 2021, management assessed that any negative impacts would not be material.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Liquidity risk

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

The tables below summarize the undiscounted contractual payments of the Company's financial liabilities as at December 31, 2021 and 2020:

December 31, 2021	Total	2022	2023	2024	2025	2026*
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	195,646	195,646	—	—	—	—
Dividends payable	2,819	2,819	—	—	—	—
Due to vendor	6,836	5,269	667	500	400	—
Optionally convertible redeemable preferred shares	11,690	11,690	—	—	—	—
Lease liability	27,098	6,155	4,412	3,537	3,273	9,721
Term debt	437,294	552	461	430	403,536	32,315
Convertible unsecured subordinated debentures [includes interest]	205,131	90,131	—	—	—	115,000
Senior unsecured subordinated debentures [includes interest]	316,555	13,648	13,648	186,148	13,648	89,463
Total financial liability payments	1,203,069	325,910	19,188	190,615	420,857	246,499

December 31, 2020	Total	2021	2022	2023	2024	2025*
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	139,098	139,098	—	—	—	—
Dividends payable	2,808	2,808	—	—	—	—
Due to vendor	9,411	7,164	1,463	334	250	200
Optionally convertible redeemable preferred shares	30,520	18,312	12,208	—	—	—
Lease liability	20,507	3,848	3,286	2,400	2,056	8,917
Term debt	412,498	502	357	266	235	411,138
Convertible unsecured subordinated debentures [includes interest]	186,511	8,064	178,447	—	—	—
Senior unsecured subordinated debentures [includes interest]	321,017	13,648	13,648	13,648	186,148	93,925
Total financial liability payments	1,122,370	193,444	209,409	16,648	188,689	514,180

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

[b] Fair value

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

	Level	December 31, 2021		December 31, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
Financial assets					
<i>Amortized cost:</i>					
Cash and cash equivalents	1	61,307	61,307	62,456	62,456
Restricted cash	1	2,424	2,424	9,616	9,616
Accounts receivable	2	206,271	206,271	176,316	176,316
Notes receivable	2	5,792	5,792	5,932	5,932
Financial liabilities					
<i>Amortized cost:</i>					
Interest-bearing loans and borrowings	2	434,541	431,299	409,373	405,907
Accounts payable and accrued liabilities	2	195,646	195,646	139,098	139,098
Dividends payable	2	2,819	2,819	2,808	2,808
Due to vendor	2	6,836	6,836	9,411	9,411
Convertible unsecured subordinated debentures	2	179,533	188,967	167,319	171,366
Senior unsecured subordinated debentures	2	250,872	252,075	249,079	253,498
<i>Fair value through profit or loss:</i>					
Derivative instruments	2	5,373	5,373	7,157	7,157
Optionally convertible redeemable preferred shares	3	11,690	11,690	28,971	28,971

During the reporting years ended December 31, 2021 and December 31, 2020, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

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

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

- Cash and cash equivalents, restricted cash, accounts receivable, dividends payable, accounts payable and accrued liabilities, due to vendor, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments and loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment-grade credit ratings. Derivatives include interest rate swaps and equity swaps that are marked-to-market at each reporting period. The fair values of derivatives are determined by the derivative counterparty using a discounted cash flow technique, which incorporates various inputs including the related interest rate swap curves and/or the Company's stock price for the equity swaps.
- The fair value of contingent consideration and the optionally convertible redeemable preferred shares ["OCRPS"] arising from business combinations is estimated by discounting future cash flows based on the probability of meeting set performance targets.

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

	2021	2020
	\$	\$
Contingent consideration and OCRPS:		
Balance, beginning of year	28,971	31,590
Fair value change	1,289	3,872
Reclassification to due to vendor	—	(5,270)
Payments	(17,505)	—
Exchange differences	(1,065)	(1,221)
Balance, end of year	11,690	28,971

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Set out below are the significant unobservable inputs to valuation as at December 31, 2021:

	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	<u>Sensitivity of the input to fair value</u>
OCRPS	Discounted cash flow method	<ul style="list-style-type: none">Probability of achieving earnings targetWeighted average cost of capital ["WACC"]	0%–100% achievement 8%–10%	Increase (decrease) in the probability would increase (decrease) the fair value Increase (decrease) in the WACC would result in decrease (increase) in fair value

Fair value ["FV"] hierarchy

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

Level 1

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

Level 2

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

Level 3

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

31. Capital disclosure and management

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

AGI manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities, and as at December 31, 2021 and December 31, 2020, all of these covenants were complied with [note 20[c]].

The Board of Directors does not establish quantitative capital structure targets for management, but rather promotes sustainable and profitable growth. Management monitors capital using non-GAAP financial metrics, primarily total debt to the trailing 12 months EBITDA and net debt to total shareholders' equity. There may be instances where it would be acceptable for total debt to trailing EBITDA to temporarily fall outside of the normal targets set by management, such as in financing an acquisition to take advantage of growth opportunities or industry cyclicality. This would be a strategic decision recommended by management and approved by the Board of Directors with steps taken in the subsequent period to restore the Company's capital structure based on its capital management objectives.

32. Related party disclosures

Relationship between parent and subsidiaries

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

Other relationships

Burnet, Duckworth & Palmer LLP provides legal services to the Company, and a Director of AGI is a partner of Burnet, Duckworth & Palmer LLP. During the year ended December 31, 2021, the total cost of these legal services related to general matters was \$1,029 [2020 – \$989], and \$451 is included in accounts payable and accrued liabilities and provisions as at December 31, 2021.

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

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Compensation of key management personnel of AGI

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

	2021	2020
	\$	\$
Short-term employee benefits	140	109
Contributions to defined contribution plans	213	148
Salaries	10,146	4,253
Share-based payments	2,087	8,854
Total compensation paid to key management personnel	12,586	13,364

33. Commitments and contingencies

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

As of the reporting date, the Company has commitments to purchase property, plant and equipment of \$3,204 [2020 – \$5,673].

[b] Letters of credit

As at December 31, 2021, the Company has outstanding letters of credit in the amount of \$21,066 [2020 – \$23,421].

[c] Legal actions

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

34. Subsequent event

On January 4, 2022, AGI completed the acquisition of 100% of Eastern Fabricators ["Eastern"]. Eastern specializes in the engineering, design, fabrication, and installation of high-quality stainless-steel equipment and systems for food processors. Eastern operates three facilities in Canada, with two in Prince Edward Island and one in Ontario.

Eastern's market-leading products, services, manufacturing capacity and customer relationships will provide strong revenue synergies as Eastern is integrated into AGI's Food platform.

Consideration for the transaction includes an upfront purchase price of \$29.25 million paid upon closing plus the potential for an additional \$15.75 million in earn-outs based on the achievement of financial targets in future years.

The transaction was funded primarily through AGI's senior debt facilities.

Ag Growth International Inc.

Notes to consolidated financial statements

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

December 31, 2021

Management is in the process of calculating the purchase price allocation and identifying the fair value measurement of the assets acquired and liabilities assumed, both of which are expected to be completed no later than one year from the acquisition date.