AGT

FOOD AND INGREDIENTS INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

MANAGEMENT’S RESPONSIBILITY

Consolidated Financial Statements

The audited consolidated financial statements (“Financial Statements”) are the responsibility of management and are approved by the Board of Directors of AGT Food and Ingredients Inc. (AGT). The Financial Statements have been prepared by management and are presented fairly in accordance with International Financial Reporting Standards (“IFRS”) and reflect management’s best estimates and judgments based on currently available information.

Management has established systems of internal controls, including disclosure controls and procedures, which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard AGT’s assets. The systems of internal control are monitored by management.

The Audit Committee of the Board, whose members are independent of management, meets at least four times per year with management. The Audit Committee reviews the independence of the external auditor, approves audit and permitted non-audit services and reviews the Financial Statements and other financial disclosure documents before they are presented to the Board for approval.

These Financial Statements have been examined by the independent auditor, KPMG LLP, and their report is presented separately.

[signed] *Murad Al-Katib*	[signed] *Lori Ireland*
Murad Al-Katib	Lori Ireland
Chief Executive Officer	Chief Financial Officer
March 20, 2018	March 20, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of AGT Food and Ingredients Inc.

We have audited the accompanying consolidated financial statements of AGT Food and Ingredients Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AGT Food and Ingredients Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants

March 20, 2018
Regina, Canada

AGT FOOD AND INGREDIENTS INC.

Consolidated Statements of Financial Position
as at December 31

(Stated in thousands of Canadian Dollars)

	Note		2017		2016
Assets					
Cash		$	21,361	$	29,025
Trade accounts receivable	11		211,622		279,782
Derivative assets	11		3,402		1,695
Inventory	4		328,080		323,320
Prepaid expenses and other	5		104,415		113,631
Income tax receivable			4,179		5,012
Total current assets			**673,059**		**752,465**
Property, plant and equipment	6		437,626		436,108
Intangible assets	7		13,224		14,259
Goodwill	7		55,227		58,656
Deferred income tax assets	16		7,398		19,518
Other			12,498		11,296
Total assets		**$**	**1,199,032**	**$**	**1,292,302**
Liabilities					
Bank indebtedness	8	$	30,833	$	19,720
Accounts payable and accrued liabilities			219,225		322,155
Derivative liabilities	11		47,245		56,341
Deferred revenue			8,860		7,979
Income taxes payable			999		2,749
Current portion of long-term debt	9		9,897		137,219
Dividends and distributions payable			7,077		3,590
Total current liabilities			**324,136**		**549,753**
Long-term debt	9		453,963		410,776
Deferred income tax liabilities	16		50,680		29,151
Total liabilities			**828,779**		**989,680**
Total shareholders' equity			**370,253**		**302,622**
Total liabilities and shareholders' equity		**$**	**1,199,032**	**$**	**1,292,302**

The accompanying notes are an integral part of these consolidated financial statements.

[signed] *"Murad Al-Katib"*
Director

[signed] *"John Gardner"*
Director

AGT FOOD AND INGREDIENTS INC.

Consolidated Statements of Comprehensive Loss
For the period ended December 31

(Stated in thousands of Canadian Dollars)

	Note		2017		2016
Revenues		$	1,735,287	$	1,973,204
Cost of sales	14		1,629,101		1,799,420
Gross profit			106,186		173,784
General and administrative expenses			52,047		53,172
Marketing, sales and distribution expenses			38,245		37,545
Earnings from operations			**15,894**		**83,067**
Other expenses:					
Unrealized foreign exchange loss			22,214		17,499
Finance expense	13		35,745		38,470
(Loss) earnings before income taxes			**(42,065)**		**27,098**
Income tax (recovery) expense	16		(5,142)		6,045
Net (loss) earnings			**(36,923)**		**21,053**
Other comprehensive loss due to changes in foreign exchange, net of tax			(27,780)		(63,573)
Total comprehensive loss		**$**	**(64,703)**	**$**	**(42,520)**
Per Share Amounts:	10				
Basic		$	(1.53)	$	0.88
Diluted		$	(1.53)	$	0.87
Basic weighted average number of shares			24,173,043		23,896,099
Diluted weighted average number of shares			24,173,043		24,092,203

The accompanying notes are an integral part of these consolidated financial statements.

AGT FOOD AND INGREDIENTS INC.

Consolidated Statements of Changes in Equity

(Stated in thousands of Canadian Dollars)

		Share capital		Preferred securities and warrants		Contributed surplus		Accumulated other comprehensive loss		Retained (deficit) earnings		Total
Balance at January 1, 2017	$	375,459	$	-	$	667	$	(90,555)	$	17,051	**$**	**302,622**
Net loss		-		-		-		-		(36,923)		**(36,923)**
Other comprehensive loss due to changes in foreign exchange [1]		-		-		-		(27,780)		-		**(27,780)**
Total comprehensive loss		-				-		(27,780)		(36,923)		**(64,703)**
Share based compensation		4,502		-		(667)		-		-		**3,835**
Preferred securities and warrants [2]		-		145,524		-		-		-		**145,524**
Distributions [3]		-		-		-		-		(2,512)		**(2,512)**
Dividends to shareholders		-		-		-		-		(14,542)		**(14,542)**
Other		-		-		-		-		29		**29**
Balance at December 31, 2017	**$**	**379,961**	**$**	**145,524**	**$**	**-**	**$**	**(118,335)**	**$**	**(36,897)**	**$**	**370,253**

		Share capital		Preferred securities and warrants		Contributed surplus		Accumulated other comprehensive loss		Retained (deficit) earnings		Total
Balance at January 1, 2016	$	372,652	$	-	$	897	$	(26,982)	$	10,351	**$**	**356,918**
Net earnings		-		-		-		-		21,053		**21,053**
Other comprehensive loss due to changes in foreign exchange [1]		-		-		-		(63,573)		-		**(63,573)**
Total comprehensive (loss) income		-		-		-		(63,573)		21,053		**(42,520)**
Other shares issued		1,149		-								**1,149**
Share based compensation		1,658		-		(345)		-		-		**1,313**
Dividends to shareholders		-		-		-		-		(14,353)		**(14,353)**
Other		-		-		115		-		-		**115**
Balance at December 31, 2016	**$**	**375,459**	$	-	**$**	**667**	**$**	**(90,555)**	**$**	**17,051**	**$**	**302,622**

[1] Net of tax of $1,206 (2016- $5,504)

[2] Net of tax liability of $42,027 (2016 - nil)

[3] Net of tax asset of $(929) (2016 - nil)

The accompanying notes are an integral part of these consolidated financial statements.

AGT FOOD AND INGREDIENTS INC.

Consolidated Statements of Cash Flow
For the years ended December 31

(Stated in thousands of Canadian Dollars)

	Note	2017	2016
Cash from (used for) the following:			
Operating activities			
Net (loss) earnings		$ (36,923)	$ 21,053
Adjustments to operating cash flows	15	76,724	86,004
Income taxes paid		(1,517)	(7,197)
Non-cash working capital	15	(60,675)	(46,767)
		(22,391)	53,093
Financing activities			
Increase (decrease) in bank indebtedness		10,163	(119,431)
Proceeds from long-term debt, net of issue costs		198,627	197,044
Repayment of long term debt		(286,497)	(7,813)
Interest paid		(24,465)	(23,127)
Shares issued pursuant to stock options plan		3,835	1,313
Net proceeds from issuance of preferred securities and warrants		188,141	-
Dividends paid		(14,496)	(14,334)
		75,308	33,652
Investing activities			
Purchase of property, plant and equipment and intangible assets		(49,955)	(82,189)
Proceeds from the sale of property, plant and equipment and insurance funds received		1,109	2,853
Other		(1,925)	-
		(50,771)	(79,336)
Effect of exchange rate changes on cash		(9,810)	(690)
(Decrease) increase in cash position		$ (7,664)	$ 6,719
Cash position, beginning of the year		**$ 29,025**	**$ 22,306**
Cash position, end of the year		**$ 21,361**	**$ 29,025**

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity

AGT head office is located in Canada. The address of AGT's registered office is 40 King Street West, Scotia Plaza, Suite 2100, Toronto, Ontario, M5H 3C2. The management of day-to-day operations is carried out at 6200 E. Primrose Green Drive, Regina, Saskatchewan S4V 3L7. The Financial Statements of AGT are comprised of AGT and its subsidiaries. AGT is engaged in the business of sourcing and value-added processing (cleaning, splitting, sorting and bagging) of pulses and specialty crops for export and domestic markets including a full range of lentils, peas, chickpeas, beans and canary seed, as well as the production and distribution of food ingredient products such as pulse flours, proteins, starches, fibers and staple foods such as pasta, rice, and milled wheat products. AGT also operates canning, small packaging and distribution facilities for the supply of products to retail and food service customers. AGT's common shares are traded on the Toronto Stock Exchange under the symbol AGT.

2. Basis of presentation

(a) Statement of compliance

The Financial Statements and the notes thereto have been prepared in accordance with IFRS and its interpretations.

The Financial Statements were approved and authorized for issue by the Board of Directors on March 20, 2018.

(b) Basis of measurement

All Financial Statements are expressed in Canadian dollars, AGT's presentation currency. All financial information has been rounded to the nearest thousand, with the exception of share units and per share amounts or unless otherwise noted. The Financial Statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. See note 11.

2. Basis of presentation – continued

(c) Use of estimates and judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates, judgments and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity or where assumptions and estimates are significant to the Financial Statements are as follows:

- **Impairment of Long-Lived and Intangible Assets**

In assessing the recoverability of long-lived and intangible assets, judgment is required in the determination of the appropriate grouping of assets that generate cash inflows or cash generating units (CGU's). The determination of CGU's is based on management's assessment of independence of revenue earned, operating asset utilization, shared infrastructure, geographic proximity and similarity of risk exposures. AGT also uses significant judgment in evaluating if a triggering event occurs which would warrant an evaluation of impairment of long - lived and intangible assets based on the identified CGU's.

Recoverability is determined through assumptions and estimates regarding future cash flows, sustaining capital requirements, discount rates, and asset lives. A material change in assumptions may impact the potential recoverability of these assets, resulting in amounts charged against current earnings.

- **Accounting for Income Taxes**

AGT operates in a number of tax jurisdictions and is required to estimate its income taxes in each of these jurisdictions in preparing its Financial Statements. Significant judgment is required related to the classification of transactions and assessment of probable outcomes as well as timing of future results. Significant estimates are required in determining income tax provisions and the recoverability of deferred income tax assets. In calculating income taxes, consideration is given to items such as tax rates in each jurisdiction, deductibility of expenses, changing tax laws and management's expectations about future results. AGT estimates deferred income taxes based on temporary differences, income and losses for financial reporting purposes and income and losses determined under the substantively enacted tax laws and rates. The tax effect of these temporary differences is recorded as deferred tax assets or liabilities in the Financial Statements. If these estimates prove to be inaccurate, future earnings may be materially impacted.

- **De-recognition of accounts receivable**

Significant judgment is applied when determining whether financial instruments qualify for de-recognition and whether substantially all of the risks, as well as the rights, control and ownership of the accounts receivable and their cash flows were transferred to a third party. AGT has removed the related accounts receivable from the statement of financial position and recognizes any costs in finance expense. See note 11.

2. Basis of presentation – continued

(c) Use of estimates and judgments – continued

- **Fair value of derivative instruments**

The fair value of derivative instruments is estimated using inputs, including foreign exchange rates, interest rates and forward rates (Level 2), as described in note 11. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair values of AGT's derivative instruments are subject to change each reporting period.

- **Functional currency**

The identification of functional currency for each of the legal entities involves significant judgment. AGT has utilized this judgment and summarized the results in note 3(c).

- **Business combinations**

The purchase price related to a business combination or asset acquisition is allocated to the underlying acquired assets and liabilities based on their estimated fair values at the time of acquisition. The determination of fair value requires AGT to make assumptions, estimates and judgements regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts AGT's reported assets and liabilities and future net earnings due to the impact on future depreciation and amortization expense and impairment tests.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated. The accounting policies have been applied consistently by AGT's entities.

(a) Revenue recognition

AGT recognizes revenue primarily from the sale of goods. Revenue is recognized upon transfer of title of the product to the customer, when the risks and rewards of ownership are otherwise transferred to the customer and when the price is fixed and determinable. These sales will be based on industry accepted sales Incoterms. Shipping and handling costs are included as a component of cost of goods sold.

3. Significant accounting policies – continued

(b) Basis of consolidation

Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, AGT measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net earnings.

Transaction costs, other than those associated with the issue of debt or equity securities, that AGT incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, AGT elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian generally accepted accounting principles (Canadian GAAP).

Subsidiaries

Subsidiaries are entities controlled by AGT. The financial statements of subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. Control exists when AGT has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounting policies of subsidiaries are consistent with the policies adopted by AGT.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Statements.

(c) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of AGT entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction. Determining functional currency involves significant judgment. AGT has assessed the functional currency of each of the subsidiaries as described below.

3. Significant accounting policies – continued

(c) Foreign currency - continued

Functional currency

The functional currencies of AGT and its subsidiaries, all of which are wholly owned, are as follows:

Subsidiary	Location	Functional Currency
AGT Food and Ingredients Inc.	Canada	Canadian Dollar (CDN)
AGT Foods Canada	Canada	CDN
AGT CLIC Foods Inc.	Canada	CDN
Mobil Capital Holdings Ltd.	Canada	CDN
AGT Terminal East Inc.	Canada	CDN
AGT Foods USA	United States of America	US Dollar (USD)
AGT Foods Australia Pty Ltd.	Australia	Australian Dollar (AUD)
Arbel Group	Turkey	Turkish Lira (TL)
A. Poortman (London) Ltd.	United Kingdom	Great British Pounds (GBP)
AGT Foods Africa (Pty) Ltd.	South Africa	South African Rand (ZAR)
AGT Food and Ingredients (Tianjin) Co. Ltd.	China	Chinese Renminbi (RMB)
AGT (India) Private Ltd.	India	Indian Rupee (INR)
AGT (Switzerland) SA	Switzerland	USD

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates prevailing at the date of the transaction. Foreign currency differences related to investments in subsidiaries are recognized in other comprehensive income.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which substance is considered to form part of the net investment in the foreign operation, are recognized in accumulated other comprehensive income in shareholders' equity.

When a foreign currency operation is disposed of, in its entirety or partially such that control, significant influence or joint control is lost, the relevant amount in the cumulative foreign currency translation difference is transferred from accumulated other comprehensive income to profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, while retaining significant influence or joint control, the relevant portion of the cumulative foreign currency translation differences is re-attributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant portion is reclassified to profit or loss.

3. Significant accounting policies – continued

(d) Financial instruments

(i) Non-derivative financial assets

AGT initially recognizes loans and receivables and deposits on the date that they are originated at fair value and subsequently measured at amortized cost. All other financial assets are recognized initially on the trade date at which AGT becomes a party to the contractual provisions of the instrument.

AGT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interests in transferred financial assets that are created or retained by AGT are recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, AGT has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Refer to note 11 for current year presentation of financial assets by category. AGT categorizes its non-derivative financial assets as described below:

Financial assets at fair value through profit and loss
A financial asset is classified at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit and loss if AGT manages such investments and makes purchase and sale decisions based on their fair value in accordance with AGT's documented risk management or investment strategy. Upon initial recognition relevant transaction costs are recognized in net earnings as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognized in net earnings.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Non-derivative financial liabilities

AGT initially recognizes short term debt securities on the date that they are originated at fair value and expenses related transaction costs. Debt associated with long term agreements is initially recognized at fair value less any directly attributable transaction costs. All other financial liabilities (including liabilities designated at fair value through profit and loss) are recognized initially on the trade date at which AGT becomes a party to the contractual provisions of the instrument. AGT derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

3. Significant accounting policies – continued

(d) Financial instruments - continued

(ii) Non-derivative financial liabilities – continued

Subsequent to initial recognition, liabilities are categorized as fair value through profit and loss or other liabilities measured at amortized cost using the effective interest method. Refer to note 11 for current year presentation of financial liabilities by category.

(iii) Derivative financial instruments

AGT holds derivative financial instruments to mitigate its foreign currency risk exposures. Embedded derivatives are separated from the host contracts and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through net earnings.

Derivatives are recognized initially at fair value with attributable transaction costs recognized in net earnings as incurred. AGT has not elected to follow hedge accounting and subsequent to initial recognition, derivatives are measured at fair value, and changes in fair value are recognized immediately in net earnings.

(e) Equity

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Preferred securities and common share purchase warrants

Preferred securities are accounted for as a compound financial instrument containing both financial liability and equity instrument features. The contractual repayment obligation of principal and interest are classified as financial liabilities. Other features of the preferred securities have equity characteristics including the discretionary dividend stream and repayment feature of preferred securities in satisfaction of the common share purchase warrants exercise price.

Common share purchase warrants are classified as equity.

Incremental costs directly attributable to the issue of preferred securities and common share purchase warrants are recognized as a deduction from equity, net of any tax effects.

Distributions prior to maturity shall be reflected in equity.

(e) Equity – continued

A deferred tax liability is recognized on the difference between the carrying amount of the financial liability component and the tax base of the instrument.

(f) Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated net impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets. During their construction, items of property, plant and equipment are classified as construction in progress. When the asset is available for use, it is transferred from construction in progress to the appropriate category of property, plant and equipment and depreciation of the item commences.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the net carrying amount of property, plant and equipment, and are recognized in net earnings.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to AGT, and its cost can be measured reliably. The net carrying amount of the replaced part is derecognized and recorded as an expense in AGT's net earnings. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

Depreciation
Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation related to production is recorded in inventory and costs of sales. Depreciation related to non-production assets is recorded through general and administration expenses.

3. Significant accounting policies – continued

(f) Property, plant and equipment – continued

The estimated useful lives for the current and comparative periods are as follows:

• Building, rail and site improvement	Straight line	10 to 50 years
• Motor vehicles	Straight line	5 to 10 years
• Plant and equipment	Straight line	2 to 30 years
• Fixtures and fittings	Straight line	3 to 20 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is recorded at cost less accumulated impairment losses. Goodwill is not amortized and is assessed annually for impairment during the fourth quarter, unless a triggering event occurs that would signify that its carrying amount may not be recoverable. For measurement of goodwill at initial recognition, see note 3(b).

(h) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by AGT and have finite useful lives are measured at cost less accumulated amortization and net accumulated impairment losses. Intangible assets which have an indefinite life are measured annually for impairment during the fourth quarter, unless a triggering event occurs that indicates that the carrying amount may not be recoverable.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in net earnings as incurred.

(ii) Amortization

Amortization is calculated over the cost of the asset, less its residual value. Amortization is recognized in net earnings as part of general and administration on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and indefinite life intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

3. Significant accounting policies – continued

(h) Intangible assets - continued

(ii) Amortization - continued

The estimated useful lives for the current and comparative periods are as follows:

• Rights	10 to 50 years
• Customer relationships	10 years
• Other	5 to 10 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(i) Leased assets

Lease terms in which AGT assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Lease agreements that do not meet the recognition criteria of a finance lease are classified and recognized as operating leases and are not recognized in AGT's statement of financial position. Payments made under operating leases are charged to income on a straight-line basis over the lease term.

(j) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes direct costs related to the purchase such as cost of grain, direct materials, direct labour, operational overhead expenses, depreciation and freight costs. Net realizable value for finished products, intermediate products and raw materials is generally considered to be the selling price of the finished product in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale. Inventory is reviewed monthly to determine if the carrying value exceeds net realizable value. If so, impairment is recognized. The impairment may be reversed if the circumstances which caused it no longer exist.

(k) Impairment

Financial assets (including receivables)
A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3. Significant accounting policies – continued

(k) Impairment - continued

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to AGT on terms that AGT would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

AGT considers evidence of impairment for receivables on an account by account basis. All individually significant receivables are assessed for specific impairment. Individually insignificant accounts are assessed as part of the portfolio as a whole.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net earnings and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of a previous impairment loss to reverse or partially reverse, the decrease in impairment loss is reversed through net earnings.

Non-financial assets

The carrying amounts of AGT's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill and indefinite life intangible assets, in the absence of a triggering event, the recoverable amount is estimated annually in the fourth quarter.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. Impairment of goodwill is tested at the cash generating unit group level, which cannot group at a level higher than an operating segment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

3. Significant accounting policies – continued

(k) Impairment – continued

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's net carrying amount does not exceed the net carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Employee benefits

Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Share-based payment transactions
The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service is expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. AGT utilizes a Black-Scholes model to determine the value of share-based payments.

Restricted Share Units
Restricted share units granted to executives and senior management are recorded at the fair value of the amount payable and recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured using a Black-Scholes model at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as an employee expense in earnings for the portion of the award that has been earned and vested.

Pension obligations
AGT has a defined contribution plan for Canadian employees. A defined contribution plan is a pension plan under which AGT pays fixed contributions into a separate entity. AGT has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and future periods. AGT records these employee benefits in cost of sales, general and administration expenses and marketing, sales and distribution as appropriate.

3. Significant accounting policies – continued

(m) Provisions

A provision is recognized if, as a result of a past event, AGT has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by AGT from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, AGT recognizes any impairment loss on the assets associated with that contract, if assets exist.

(n) Finance expense

Finance expense is comprised of interest expense, fees on borrowings, amortization of discounts on long term debt, and the impact of foreign exchange on the settlement of certain debt instruments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net earnings using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3. Significant accounting policies – continued

(o) Income tax - continued

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of temporary difference is controlled by AGT and it is probable the temporary difference will not reverse in the foreseeable future.

(p) Earnings per share

AGT presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings attributable to common shareholders of AGT adjusted by net preferred securities distributions by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, such as compensation options granted to employees and Directors and common share purchase warrants.

(q) Segment reporting

An operating segment is a component of AGT that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of AGT's other components. All operating segments' operating results are reviewed regularly by AGT's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily AGT's headquarters), head office expenses, and income tax assets and liabilities.

(Stated in thousands of Canadian dollars)

3. Significant accounting policies – continued

(r) New standards, amendments and interpretations

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards, amendments and interpretations that have not been applied in preparing these Financial Statements as their effective dates fall in periods beginning subsequent to the current reporting period.

Proposed Standard	Description	Effective Date	Expected Impact
IFRS 15 Revenue from Contracts with Customers	The new standard creates a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. This standard may change how much and when revenue can be recognized.	Fiscal years beginning on or after January 1, 2018, applied retrospectively	AGT has not identified any significant impact on the timing and measurement of revenue from existing revenue recognition practices on the Financial Statements, but does expect to have additional disclosures.
IFRS 9 Financial Instruments	The new standard is a single financial instrument accounting standard addressing classification and measurement, impairment and hedge accounting.	Fiscal years beginning on or after January 1, 2018, applied retrospectively with certain exceptions	AGT does not expect a significant impact on the Financial Statements, but does expect to have additional disclosures. AGT does not currently apply hedge accounting and does not intend to apply hedge accounting upon adoption of IFRS 9.
IFRS 2 Share-based Payment Amendment	The amendment clarifies how to account for and measure certain types of share-based payment transactions.	Fiscal years beginning on or after January 1, 2018, applied prospectively	AGT does not expect a significant impact on the Financial Statements.
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	The interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.	Fiscal years beginning on or after January 1, 2018, applied retrospectively or prospectively	AGT does not expect a significant impact on the Financial Statements.
IFRS 16 Leases	The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.	Fiscal years beginning on or after January 1, 2019, applied retrospectively	To be determined
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.	Fiscal years beginning on or after January 1, 2019, applied prospectively	To be determined
IAS 28 Investments in Associates and Joint Ventures	The amendment clarifies that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 Financial Instruments and IAS 28	Fiscal years beginning on or after January 1, 2019. Early adoption is permitted	To be determined
Annual Improvements to IFRS Standards IFRS 3 Business Combinations IFRS 11 Joint Arrangements IAS 12 Income Taxes IAS 23 Borrowing Costs	The amendments clarify how to account for increasing an interest in a joint operation that meets the definition of a business (IFRS 3 and IFRS 11); that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits (IAS 12); that specific borrowings to finance the construction of a qualifying asset, should be transferred to the general borrowings once the construction of the asset has been completed (IAS 23)	Fiscal years beginning on or after January 1, 2019. Early application is permitted	To be determined

(Stated in thousands of Canadian dollars)

3. Significant accounting policies – continued

(r) New standards, amendments and interpretations -continued

Management continues to assess the potential impact of all standards, amendments and interpretations effective in future years in the above table for impacts on both quantitative and qualitative disclosure. AGT expects to adopt these standards on their respective effective dates.

On January 1, 2017, AGT applied disclosure initiative IAS 7: Statement of Cash Flows – Changes in liabilities arising from financing activities. Refer to note 15.

4. Inventory

	2017	2016
Raw materials	$ 128,820	$ 145,085
Processed/split product	173,496	147,989
Packaged product	19,365	23,888
Other	6,399	6,358
	$ 328,080	$ 323,320

	2017	2016
Inventory expensed in cost of goods sold	$ 1,523,471	$ 1,693,919

5. Prepaid expenses and other

	2017	2016
Advances for inventory	$ 55,393	$ 57,146
Value added tax receivable	32,151	33,683
Prepaid expenses and other	16,871	22,802
	$ 104,415	$ 113,631

Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Stated in thousands of Canadian dollars)

6. Property, plant and equipment

Cost	Land	Building, Rail and Site improvement	Plant and Equipment	Motor Vehicles	Fixtures and Fittings	Construction in Progress	Total
Balance at December 31, 2015	$ 24,216	$ 209,568	$ 209,210	$ 10,941	$ 9,211	$ 37,392	**$ 500,538**
Additions	25	2,598	9,673	962	940	66,170	**80,368**
Disposals	-	(516)	(1,858)	(88)	(73)	-	**(2,535)**
Final purchase price adjustment on 2015 business combination	-	2,290	265	13	1	-	**2,569**
Transfers between categories	-	15,490	28,066	2,310	456	(46,322)	**-**
Effects of movements in exchange rates	(1,944)	(7,635)	(14,201)	(499)	(748)	(5,697)	**(30,724)**
Balance at December 31, 2016	$ 22,297	$ 221,795	$ 231,155	$ 13,639	$ 9,787	$ 51,543	**$ 550,216**
Additions	278	1,860	7,604	728	697	37,562	**48,729**
Disposals	(10)	(188)	(880)	(338)	(36)	-	**(1,452)**
Transfers between categories	(13)	10,384	25,094	56	655	(36,176)	**-**
Effects of movements in exchange rates	(995)	(6,654)	(10,868)	(295)	(369)	(4,214)	**(23,395)**
Balance December 31, 2017	$ 21,557	$ 227,197	$ 252,105	$ 13,790	$ 10,734	$ 48,715	**$ 574,098**
Accumulated Depreciation							
Balance at December 31, 2015	$ -	$ 17,167	$ 70,960	$ 5,151	$ 4,842	$ -	**$ 98,120**
Depreciation	-	6,803	15,480	1,649	1,400	-	**25,332**
Disposals	-	(68)	(865)	(56)	(73)	-	**(1,062)**
Effects of movements in exchange rates	-	(1,237)	(6,277)	(277)	(491)	-	**(8,282)**
Balance at December 31, 2016	$ -	$ 22,665	$ 79,298	$ 6,467	$ 5,678	$ -	**$ 114,108**
Depreciation	-	7,041	18,944	1,528	1,441	-	**28,954**
Disposals	-	(22)	(442)	(199)	(25)	-	**(688)**
Effects of movements in exchange rates	-	(966)	(4,508)	(187)	(241)	-	**(5,902)**
Balance December 31, 2017	$ -	$ 28,718	$ 93,292	$ 7,609	$ 6,853	$ -	**$ 136,472**
Net Book Value at December 31, 2016	**$ 22,297**	**$ 199,130**	**$ 151,857**	**$ 7,172**	**$ 4,109**	**$ 51,543**	**$ 436,108**
Net Book Value at December 31, 2017	**$ 21,557**	**$ 198,479**	**$ 158,813**	**$ 6,181**	**$ 3,881**	**$ 48,715**	**$ 437,626**

(Stated in thousands of Canadian dollars)

7. Intangibles and goodwill

Cost	Indefinite Life Intangible Assets- Brands	Finite Life Intangible Assets	**Total Intangible Assets**	Goodwill	**Total**
Balance at December 31, 2015	$ 6,582	$ 13,045	**$ 19,627**	$ 65,947	**$ 85,574**
Additions	-	1,821	**1,821**	-	**1,821**
Disposals	-	(3)	**(3)**	-	**(3)**
Effects of movements in exchange rates	(514)	(1,485)	**(1,999)**	(7,291)	**(9,290)**
Balance at December 31, 2016	$ 6,068	$ 13,378	**$ 19,446**	$ 58,656	**$ 78,102**
Additions	-	1,226	**1,226**	-	**1,226**
Effects of movements in exchange rates	(278)	(285)	**(563)**	(3,429)	**(3,992)**
Balance at December 31, 2017	$ 5,790	$ 14,319	$ 20,109	$ 55,227	**$ 75,336**
Accumulated Amortization					
Balance at December 31, 2015	$ -	$ 4,153	**$ 4,153**	$ -	**$ 4,153**
Amortization	-	1,833	**1,833**	-	**1,833**
Effects of movements in exchange rates	-	(799)	**(799)**	-	**(799)**
Balance at December 31, 2016	$ -	$ 5,187	**$ 5,187**	$ -	**$ 5,187**
Amortization	-	1,912	**1,912**	-	**1,912**
Effects of movements in exchange rates	-	(214)	**(214)**	-	**(214)**
Balance at December 31, 2017	$ -	$ 6,885	$ 6,885	$ -	**$ 6,885**
Net carrying amounts					
At December 31, 2016	**$ 6,068**	**$ 8,191**	**$ 14,259**	**$ 58,656**	**$ 72,915**
At December 31, 2017	**$ 5,790**	**$ 7,434**	**$ 13,224**	**$ 55,227**	**$ 68,451**

The brands AGT recognizes are considered intangible assets having an indefinite life. The brands are actively managed with no current expectation that the brand will cease to exist.

Amortization of intangibles is recorded in the general and administration line on the Consolidated Statements of Comprehensive Loss.

(Stated in thousands of Canadian dollars)

7. Intangibles and goodwill – continued

Finite life intangible assets are assessed for impairment when there is indication that a triggering event has occurred. Detailed impairment testing is carried out for indefinite life intangible assets and goodwill at least annually. For the purposes of impairment testing, goodwill and indefinite life intangible assets are allocated at the lowest level of cash generating units (CGU) where independent cash flows exist.

	2017		2016	
Segment	Goodwill	Indefinite Life Intangible Asset	Goodwill	Indefinite Life Intangible Asset
Pulse and Grain Processing				
Turkey	$ 9,916	$ -	$ 11,420	$ -
Canada	27,299	-	27,299	-
Bulk Handling and Distribution				
Turkey	3,345	-	3,852	-
United Kingdom	3,485	-	3,400	-
Food Ingredients and Packaged Foods				
Turkey	9,916	1,833	11,419	2,111
Canada	1,204	3,944	1,204	3,944
	$ 55,165	$ 5,777	$ 58,594	$ 6,055
Units without significant allocations	62	13	62	13
Total	$ 55,227	$ 5,790	$ 58,656	$ 6,068

The recoverable amount of the units was based on the value in use of the CGU to which goodwill has been allocated. The value in use was determined by discounting management's estimate of the expected cash flows to be generated through continuing use of the CGU.

Key assumptions used in discounted cash flow projection calculations

Key assumptions used in the calculation of recoverable amounts are the discount rates and the growth rate for future cash flows. AGT used budgeted earnings before interest, taxes, depreciation and amortization less sustaining capital expenditures as an approximation for baseline cash flows. It is not expected that a reasonably possible change in assumptions would result in a CGU's carrying value exceeding its recoverable amount. The assumptions are as follows:

(Stated in thousands of Canadian dollars)

7. Intangibles and goodwill - continued

Discount rate

Discount rates are pre-tax measures that reflect risks specific to the CGU based on the weighted average cost of capital for that CGU. Pre-tax discount rates were determined from post-tax rates of 11% for Turkey, 9% for Canada, and 9% for the United Kingdom (2016 - 11% for Turkey, 9% for Canada, and 9% for the United Kingdom). Differences arise between the post-tax and pre-tax discount rates for each CGU because of the timing of future tax cash flows and discrepancies between the carrying amount of an asset and its tax base.

Cash flows from a CGU were projected based on AGT's 2018 budget which incorporated management's past experience and expectations of future unit performance. Management based growth rates over the first five years of the cash flow projection on a combination of historical growth in the unit and management's expectation of performance over the forecast period. Changes in cash flows associated with various working capital account balances due to estimated growth have been factored into the estimated cash flows. Cash flows into perpetuity have been assumed based on the inclusion of an annual cash outflow associated with sustaining capital expenditures. These are estimated expenditures that are intended to maintain the performance of the property, plant and equipment of the CGU. No growth of budgeted cash flows has been assumed for this terminal period.

KEY ASSUMPTIONS

	2017		**2016**	
Segment	Discount Rate	Average Growth	Discount Rate	Average Growth
Pulse and Grain Processing				
Turkey	13%	3%	13%	3%
Canada	10%	3%	10%	3%
Bulk Handling and Distribution				
Turkey	13%	5%	14%	3%
United Kingdom	14%	3%	11%	3%
Food Ingredients and Packaged Foods				
Turkey	14%	3%	13%	3%
Canada	10%	2%	10%	3%

(Stated in thousands of Canadian dollars)

8. Bank Indebtedness

At December 31, 2017, AGT had total operating lines available of $195,860 (December 31, 2016 - $255,974). Included in these facilities is a syndicated debt facility of $150,000 (December 31, 2016 – $211,500) secured by a general security agreement and security interests against real property owned by AGT and certain of its subsidiaries, maturing in January 2020. At December 31, 2017, $30,833 (December 31, 2016 - $20,173) of the facilities was utilized, leaving $165,027 (December 31, 2016 - $235,801) unutilized. The weighted average interest rate on available operating lines at December 31, 2017 is 3.8% (December 31, 2016 – 3.3%).

9. Long term debt

	2017	2016
Loan payable, bearing an interest rate of prime plus 0.35%, (December 31, 2016 - prime plus 0.35%), with monthly payments of interest only, due January 2020, secured by Canadian, US and Australian property, plant and equipment, accounts receivable and inventory.	$ 220,652	$ 115,036
Senior unsecured notes, bearing an interest rate of 5.875% per annum, with semi-annual payments of interest only, beginning June 2017 and concluding December 2021.	195,798	194,898
Senior secured second lien notes, bearing an interest rate of 9% per annum, with semi-annual payments of interest only, beginning August 2013 and redeemed February 2017, secured by a general security agreement and security interests against real property owned by AGT and certain of its subsidiaries.	-	123,443
Loan payable, bearing an interest rate of prime plus 0.35%, (December 31, 2016 - prime plus 0.35%) with monthly payments of interest only and quarterly payments of $1,500 principal, loan cancelled and re-allocated with other facilty effective December 21, 2017	-	65,797
Loan payable, bearing an interest rate up to 5% (December 31, 2016 - interest rate up to 5%), with annual payments of $1,000 principal, due annually in September concluding in September 2027, secured by a debenture charging the purchased assets in favour of the lender and certain property, plant, and equipment.	13,500	14,500
Non-interest bearing note payable with five annual payments of $3,900, commencing October 2016 and concluding October 2020 (effective interest rate 1.5%).	10,678	14,230
Loans payable bearing interest rates ranging up to 6.11% (December 2016 - up to 6.11%), with monthly payments of $171, due dates ranging from February 2019 to May 2040 (December 2016 - due dates ranging from February 2019 to May 2040), secured by general security agreements and certain Canadian property, plant, and equipment.	9,896	7,302
Mortgage payable, bearing an interest rate of Business Development Bank of Canada prime rate minus 1.5% (December 31, 2016 - Business Development Bank of Canada prime rate minus 1.5%), with monthly variable interest payments combined with principal payments of $30 and all concluding August 2036, secured by security interests against real property owned by AGT and certain of its subsidiaries.	6,650	7,007
Other	6,686	5,782
	$ 463,860	$ 547,995
Current portion	(9,897)	(137,219)
	$ 453,963	$ 410,776

(Stated in thousands of Canadian dollars)

9. Long term debt - continued

On December 21, 2016, AGT finalized a transaction and issued senior unsecured notes in the amount of $200,000. These notes bear interest at 5.875% per annum and mature on December 21, 2021. The proceeds after deducting expenses were $194,874. Optional early redemption features of the notes are:

i) Prior to December 21, 2018 a 5.875% premium upon equity offering in respect of partial redemptions up to 35% of the aggregate principal amount then outstanding
ii) Prior to December 21, 2018 all other redemptions on a "make whole" basis
iii) On or after December 21, 2018 a 4.4% premium
iv) On or after December 21, 2019 a 2.2% premium
v) No premium on or after December 21, 2020

AGT assessed that the optional early redemption features of the senior unsecured notes are closely related to the economic characteristics and risks of the host debt contract therefore the embedded derivative identified is not separated and recognized separately. The combined financial instrument is not measured at fair value through net earnings.

The estimated principal repayments in each of the next five periods are as follows:

2018	$	9,897
2019		7,151
2020		229,595
2021		198,494
Thereafter		18,723
	$	463,860

For the long term debt that is variable rate debt, the carrying value (CV) approximates its fair value (FV). For the long term debt that is fixed rate debt, at December 31, 2017, CV: $229,872 and FV: $235,331 (December 31, 2016- CV: $354,374 and FV: $368,891).

(Stated in thousands of Canadian dollars)

10. Share capital

(a) Authorized

Unlimited number of voting common shares without par value

(b) Issued and outstanding

	# of Common Shares		Amount
Issued and outstanding December 31, 2015	23,801,490	$	372,652
Issuance of shares pursuant to stock option plan	103,333		1,658
Issuance of other shares	31,712		1,149
Balance, December 31, 2016	23,936,535	$	375,459
Issuance of shares pursuant to stock option plan	300,001		4,502
Balance, December 31, 2017	24,236,536	$	379,961

During 2017, issued dividends of $0.60 per share on an annualized basis (2016 - $0.60 per share).

(c) Preferred securities and common share purchase warrants

On August 31, 2017, AGT issued $190 million of 5.375% securities ("preferred securities") to Fairfax Financial Holdings Limited ("Fairfax") through certain of its subsidiaries for cash. The preferred securities are unsecured obligations, maturing August 31, 2116 and guaranteed by certain of AGT's subsidiaries. The $190 million principal amount is to be repaid in cash on maturity.

Distributions are calculated at a rate of 5.375% per annum and are cumulative and non-compounding. AGT has the ability to defer payment of annual distributions to maturity. Otherwise, distributions will be paid at the discretion of AGT on payment dates of not less than three months and not more than six months.

As a compound financial instrument, the liability component of the preferred securities has been measured by discounting contractually mandatory cash flows to maturity using a discount factor of 8%. The liability component of $0.6 million has been recorded in other debt and will be accreted over the 99 year period to maturity.

Concurrently, AGT issued 5,714,286 common share purchase warrants (the "warrants"), each exercisable into one common share of AGT and exercisable at $33.25 per share. Each warrant will be exercisable within 7 years. AGT also elected to require early exercise of the warrants if the five day volume weighted average closing price of its common shares reaches $53.20 at any time after the fifth anniversary of the closing. AGT assigned a fair value at issuance of $31,895 to the warrants using an options pricing model.

(Stated in thousands of Canadian dollars)

10. Share Capital - continued

(c) Preferred securities and common share purchase warrants – continued

The key assumptions used in the options pricing model were as follows:

i) Valuation date: August 31, 2017
ii) Expiry date: August 31, 2024
iii) Forced exercise restriction date: August 31, 2022
iv) Initial AGT share price: $26.00
v) AGT dividend rate: 2.3%
vi) Share price volatility: 33.7%
vii) Risk free rate: 1.7%

The following table is a summary of the components of the transaction:

	Debt	Equity	Total
Preferred securities	$ 590	$ 157,515	$ 158,105
Common share purchase warrants	-	31,895	31,895
	590	189,410	190,000
Issuance Costs	-	(1,859)	(1,859)
Net cash proceeds	**$ 590**	**$ 187,551**	**$ 188,141**
Deferred income tax liability on preferred securities	-	(42,529)	(42,529)
Deferred income tax asset on issuance costs	-	502	502
Net tax impact	**$ -**	**$ (42,027)**	**$ (42,027)**
	$ 590	**$ 145,524**	**$ 146,114**

(Stated in thousands of Canadian dollars)

10. Share Capital – continued

(d) Stock option plan

All options previously granted under the AGT stock option plan for its employees, officers and directors, were exercised in the current year. The options were granted at an exercise price set at the closing market price of AGT's common shares on the day proceeding the date on which the option is granted and were exercisable within 5 years. Options were granted with graded vesting terms. One third of the options granted vested on the second anniversary date of the grant, one third vested on the third anniversary date of the grant and one third of the options vested on the fourth anniversary of the grant.

	2017		2016	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Stock options outstanding, beginning of year	300,001	$ 12.71	403,334	$ 12.71
Exercised	(300,001)	12.71	(103,333)	12.71
Stock options outstanding, end of year	-	-	300,001	$ 12.71
Stock options exercisable, end of year	-	-	300,001	$ 12.71

The fair value of options granted under the stock option plan was measured based on the Black-Scholes option-pricing model.

(Stated in thousands of Canadian dollars)

10. Share Capital – continued

(e) Restricted share units and other plans

AGT has implemented a long term incentive plan, which includes restricted share units (RSU) to executives and certain other senior management. The number of restricted share units is determined based on an average share price from the week of the grant date. The number of share units granted to each individual is then determined based on the bonus given to each employee, divided by the average price. These RSU's will be settled in cash, on or after the vesting date. RSU's vest at a rate of 50% on the two year anniversary of the grant date and the remainder on the three year anniversary of the grant date and are settled on or after each respective vesting date. Amounts are not payable if the employee is not with AGT at the vesting date, but are being recognized as an expense over the vesting period primarily in general and administration expenses.

RSU's outstanding and the fair value of the RSU liability is summarized below as:

	2017	2016
	Number of RSU's	**Number of RSU's**
Opening at the beginning of the year	302,024	284,795
Granted during the year	203,875	151,582
Forfeited during the year	(1,154)	(1,927)
Vested and settled during the year	(107,135)	(132,426)
Outstanding at the end of the year	397,610	302,024
Fair value	$ 7,632	$ 10,593
Vested and accrued	$ 4,009	$ 5,771

RSU's granted are recorded at the fair value of the amount payable and recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured using a Black-Scholes model at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as an employee expense in earnings.

(Stated in thousands of Canadian dollars)

10. Share capital - continued

(f) Per share amounts

The following table represents the effect of the distributions on the net (loss) earnings of AGT and the (loss) earnings per share:

		2017		2016
Basic earnings per share computation				
Net (loss) earnings	$	(36,923)	$	21,053
Preferred securities distributions net of tax		(2,512)		-
Net (loss) earnings attributable to common shareholders		(39,435)		21,053
Basic weighted average number of shares		24,173,043		23,896,099
Basic net (loss) earnings per common share	**$**	**(1.63)**	**$**	**0.88**
Diluted earnings per share computation				
Net (loss) earnings attributable to common shareholders	$	(39,435)	$	21,053
Basic weighted average number of shares		24,173,043		23,896,099
Dilutive effect of stock options/warrants		-		196,104
Weighted average common shares outstanding assuming dilution		24,173,043		24,092,203
Diluted net (loss) earnings per common share	**$**	**(1.63)**	**$**	**0.87**

There was no dilutive impact of stock options and warrants in 2017 as AGT recognized a net loss attributable to common shareholders.

(Stated in thousands of Canadian dollars)

11. Financial instruments

Fair values

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. Fair values for AGT's derivative instruments are determined using models requiring the use of inputs, as described below.

All financial instruments measured at fair value or are short term in nature are categorized into one of three levels, described below, for disclosure purposes. Each level is based on transparency of inputs used to measure the fair value of assets and liabilities:

Level 1 – values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. There were no items measured at fair value using Level 1 in 2016 or 2017.

Level 2 – values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. In determining the inputs for calculating fair values, AGT looks to readily observable market inputs, primarily currency rates, interest rates and forward rates based on the nature of AGT's derivative instruments. The fair value of long-term debt with fixed interest rates is estimated based on readily available market information from a third party.

Level 3 – values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. There were no items measured at fair value using Level 3 in 2016 or 2017.

The following items, shown in the Consolidated Statements of Financial Position as at December 31, 2017 and December 31, 2016 are measured at fair value on a recurring basis using Level 2 inputs:

2017		**Level 2**
Derivative assets	$	3,402
Derivative liabilities		(47,245)
	$	(43,843)

2016		**Level 2**
Derivative assets	$	1,695
Derivative liabilities		(56,341)
	$	(54,646)

(Stated in thousands of Canadian dollars)

11. Financial instruments – continued

Fair values – continued

The following table represents the change in fair value recognized in unrealized foreign exchange loss in the Consolidated Statements of Comprehensive Loss.

	2017	2016
Derivative assets	$ 1,707	$ (1,538)
Derivative liabilities	9,096	10,195
	$ 10,803	$ 8,657

The carrying value and fair value of AGT's financial instruments are as follows:

2017	Fair value Through Profit or Loss	Amortized cost Loans and receivables	Amortized cost Other financial liabilities	Total Carrying amount	Total Fair value
Financial Assets					
Cash	$ -	$ 21,361	$ -	$ 21,361	$ 21,361
Trade accounts receivables	-	211,622	-	211,622	211,622
Derivative assets	3,402	-	-	3,402	3,402
Financial Liabilities					
Bank indebtedness	-	-	30,833	30,833	30,833
Accounts payable and accrued liabilities	-	-	219,225	219,225	219,225
Long-term debt	-	-	463,860	463,860	469,319
Derivative liabilities	47,245	-	-	47,245	47,245
Dividend payable	-	-	7,077	7,077	7,077

2016	Fair value Through Profit or Loss	Amortized cost Loans and receivables	Amortized cost Other financial liabilities	Total Carrying amount	Total Fair value
Financial Assets					
Cash	$ -	$ 29,025	$ -	$ 29,025	$ 29,025
Trade accounts receivables	-	279,782	-	279,782	279,782
Derivative assets	1,695	-	-	1,695	1,695
Financial Liabilities					
Bank indebtedness	-	-	19,720	19,720	19,720
Accounts payable and accrued liabilities	-	-	322,155	322,155	322,155
Long-term debt	-	-	547,995	547,995	562,512
Derivative liabilities	56,341	-	-	56,341	56,341
Dividend payable	-	-	3,590	3,590	3,590

11. Financial instruments – continued

Risk management

As a result of the nature of AGT's operations, it may be exposed to various forms of risk related to financial instruments. Those forms of risk include credit risk, foreign exchange risk, liquidity risk, interest rate risk and commodity price risk.

AGT uses financial derivatives to reduce market risk exposures from changes in foreign exchange rates. AGT does not hold or use any derivative instruments for trading or speculative purposes. Overall, AGT's Board of Directors has responsibility for the establishment and approval of AGT's risk management policies. Management continually performs risk assessments to ensure that all significant risks have been reviewed and assessed to reflect changes in market condition and AGT's operating activities.

Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk relates to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet obligations to be similarly affected by changes in economic or other conditions. AGT minimizes this risk by having a diverse customer base and established credit policies, including the use of accounts receivable insurance. Credit risk associated with cash is minimized substantially by investing these financial assets with highly rated financial institutions.

The carrying amount of financial assets represents the maximum credit exposure as follows:

		2017		**2016**
Cash	$	21,361	$	29,025
Trade accounts receivable		211,622		279,782

AGT ages trade accounts receivable based on their due date. The aging categories are the number of days overdue.

The allowance for doubtful receivables represents specific provisions charged to expenses. The allowance is an estimated amount that management believes will be adequate to absorb possible future losses on existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables.

(Stated in thousands of Canadian dollars)

11. Financial instruments – continued

Credit risk - continued

	2017	2016
Current	$ 161,319	$ 174,601
1-30 days	36,958	80,765
31-60 days	9,013	11,088
Greater than 60 days	4,332	13,328
	$ 211,622	$ 279,782

The above table reflects a listing of trade accounts receivable, net of allowance for doubtful accounts of $2,267 at December 31, 2017 (December 31, 2016 - $2,526).

AGT has a Master Receivables Purchase Agreement ("MRPA") with the Bank of Nova Scotia ("BNS"). The MRPA allows the sale of specific Turkish trade accounts receivable that are insured through Export Development Canada ("EDC") to the BNS. The MRPA permits AGT to securitize up to $50,293 ($40,000 USD) worth of insured receivables. AGT has derecognized the receivables from the Consolidated Statements of Financial Position as substantially all of the risks and rewards of ownership have been transferred.

The arrangement with BNS has AGT continuing to be administratively involved in the collection of receivables and submission of those collections to BNS. However, AGT bears no risk and any uncollected amounts would result in EDC making a payment directly to BNS.

As at December 31, 2017, AGT has sold for cash proceeds $26,341 (December 31, 2016 – $53,708) of trade accounts receivable from the Financial Statements and incurred $1,004 (December 31, 2016- $901) in transaction fees, included in finance expense.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. AGT's sales are routinely denominated in USD while processing and production costs are largely denominated in the functional currency of the country in which the subsidiary operates.

AGT manages foreign currency risk by matching foreign currency denominated assets and liabilities. Management reviews the foreign currency open position and takes risk management measures if required. AGT has also entered into certain foreign exchange contracts with maturities of less than two years to manage risks associated with entering into new sales contracts denominated in USD, EUR, GBP and AUD. AGT's foreign exchange contracts are not designated as hedges and are recorded at fair value with changes in fair value recognized in earnings.

11. Financial instruments – continued

Foreign currency risk - continued

At December 31, 2017:

The value of the USD relative to the Canadian dollar was $1.00 (USD) for $1.2573 (CDN), down from $1.00 (USD) for $1.3427 (CDN) at December 31, 2016. The exchange rate averaged $1.00 (USD) for $1.2980 (CDN) over the year.

AGT had the following significant contracts in place:

- Foreign currency forward contracts of $136,622 (USD) with an average exchange rate of $1.00 (USD) for $1.26 (CDN). December 31, 2016 $191,852 (USD) with an average exchange rate of $1.00 (USD) for $1.32 (CDN).

- Foreign currency forward contracts of $42,053 (USD) with an average exchange rate of $1.00 (USD) for $1.30 (AUD). December 31, 2016 $104,655 (USD) with an average exchange rate of $1.00 (USD) for $1.34 (AUD).

- Cross currency interest swap contracts of $221,440 (USD) with an average exchange rate of $1.00 (USD) for $1.04 (CDN). December 31, 2016 $139,026 (USD) with an average exchange rate of $1.00 (USD) for $1.01 (CDN).

AGT manages counterparty risk associated with economic hedging by dealing with highly rated counterparties and limiting our exposure. At December 31, 2017, all significant counterparties to foreign exchange hedging contracts had a DBRS credit rating of A or better.

(Stated in thousands of Canadian dollars)

11. Financial instruments – continued

Foreign currency risk - continued

AGT measures its exposure to foreign exchange risk on financial instruments as the change in carrying values that would occur as a result of reasonably possible changes in foreign exchange rates, holding all other variables constant. AGT has determined its pre-tax exposure to foreign currency exchange risk on significant financial instruments to be as follows based on a 5% strengthening of the significant currencies AGT is exposed to. A 5% weakening of these same currencies at December 31, 2017 would have had an equal but opposite effect on the amounts shown below, assuming all other variables remained constant. Percentages have been determined based on the market volatility in exchange rates in the previous 12 months for USD to CDN which represents the most significant exposure to AGT:

	Currency	**Carrying Value (CDN) December 31, 2017**	**Gain (loss) CDN**
Cash	USD	$ 9,711	$ 486
Accounts receivable	USD	116,650	5,833
Accounts receivable	EUR	9,945	497
Bank indebtedness	USD	15,107	(755)
Accounts payable and accrued liabilities	USD	15,006	(750)
Accounts payable and accrued liabilities	EUR	12,318	(607)
Net foreign currency derivative liabilities	USD	43,087	(26,107)
			$ (21,403)

	Currency	**Carrying Value (CDN) December 31, 2016**	**Gain (loss) CDN**
Cash	USD	$ 9,944	$ 497
Accounts receivable	USD	177,682	8,884
Accounts receivable	EUR	9,051	453
Bank indebtedness	USD	6,909	(345)
Accounts payable and accrued liabilities	USD	18,288	(914)
Accounts payable and accrued liabilities	EUR	7,741	(387)
Net foreign currency derivative liabilities	USD	52,565	(28,499)
			$ (20,311)

The above sensitivity analysis for foreign currency risk does not include translation risk. Translation exposures arise from financial and non-financial items of operations with functional currencies different from AGT's reporting currency. AGT recognizes currency translation adjustments in other comprehensive income. The sensitivity at the reporting date is not representative of the sensitivity throughout the year as the balance sheet date exposure does not reflect the exposure during the year.

(Stated in thousands of Canadian dollars)

11. Financial instruments – continued

Liquidity risk

Liquidity risk is the risk that AGT cannot meet a demand for cash or fund its obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

The following are the contractual maturities of financial liabilities, including interest payments:

2017	Carrying Amount	Contractual cash flows	1 year	2 years	3 - 5 years	More than 5 years
Bank indebtedness	$ 30,833	$ 30,833	$ 30,833	$ -	$ -	$ -
Accounts payable and accrued liabilities	219,225	219,225	219,225	-	-	-
Long-term debt	463,256	536,491	30,337	29,760	458,803	17,591
Derivative liabilities	47,245	57,974	4,063	866	53,045	-
Dividends and distributions payable	7,077	7,077	7,077	-	-	-
Preferred security and warrants	604	1,201,037	-	-	-	1,201,037
	$ 768,240	$ 2,052,637	$ 291,535	$ 30,626	$ 511,848	$ 1,218,628

2016	Carrying Amount	Contractual cash flows	1 year	2 years	3 - 5 years	More than 5 years
Bank indebtedness	$ 19,720	$ 19,720	$ 19,720	$ -	$ -	$ -
Accounts payable and accrued liabilities	322,155	322,155	322,155	-	-	-
Long-term debt	547,995	629,326	161,362	196,709	253,114	18,141
Derivative liabilities	56,341	58,823	14,591	44,232	-	-
Dividends and distributions payable	3,590	3,590	3,590	-	-	-
	$ 949,801	$ 1,033,614	$ 521,418	$ 240,941	$ 253,114	$ 18,141

Future expected operational cash flows and sufficient assets are on hand to fund these obligations. In addition, AGT practices an accounts receivable management program that tracks cargo and documentation flows to ensure the timely receipt of payment from customers. AGT's diversified customer base ensures that concentration risks are minimized and that inflows are more predictable. The cash flow management activities and the continued profitability of AGT's operations allow for substantial mitigation of liquidity risk.

Interest rate risk

Fluctuations in interest rates impact the future cash flows and fair values of various financial instruments. The exposure is also managed by aligning current and long term assets with outstanding debt and making use of global credit facilities.

AGT is exposed to interest rate fluctuations on its variable-rate debt. The impact of a 1% change in interest rates would have an approximate impact on pre-tax earnings of $2,616 (December 31, 2016 - $2,076). Changes in market interest rates cause the fair value of long term debt with fixed interest rates to fluctuate but do not affect net earnings as AGT’s debt is carried at amortized cost and the carrying value does not change as interest rate changes.

(Stated in thousands of Canadian dollars)

11. Financial instruments – continued

Commodity risk

AGT is a significant processor and supplier of pulse crops and bears significant exposure to changes in prices of these products. Prices are volatile and are influenced by numerous factors beyond AGT's control, such as supply and demand fundamentals, geographical events and weather.

AGT's sales contracting focuses on reducing the volatility in future earnings and cash flow, while providing protection against changes in market price. To mitigate the risks associated with the fluctuations in the market price for pulse crops, AGT seeks to maintain a portfolio of product sales contracts with varying delivery dates and pricing mechanisms that reflect the delivery dates and pricing with customers.

12. Capital management

AGT manages its capital to ensure that financial flexibility exists to increase equity through a combination of acquisitions and organic growth. This allows AGT to respond to changes in economic and/or marketplace conditions. AGT also strives to maintain an optimal capital structure to reduce the overall cost of capital. In the management of capital, AGT utilizes bank indebtedness (net of cash), long-term debt and shareholders' equity. It may be difficult to accurately predict market conditions for attracting capital. AGT has guarantees on certain of its debt facilities that require security in the form of all accounts receivable, inventory and property, plant and equipment. Certain long term lenders have priority claim on the property, plant and equipment, ranking in priority to other lenders.

AGT includes net debt and shareholders' equity as components of its capital structure. The calculation of net debt, shareholders equity and capital are set out in the following table:

		2017		2016
Long-term debt	$	453,963	$	410,776
Bank indebtedness and current portion long-term debt		40,730		156,939
Cash		(21,361)		(29,025)
Net debt	**$**	**473,332**	**$**	**538,690**
Shareholders' equity [(1)]		370,253		302,622
Total capital	**$**	**843,585**	**$**	**841,312**

[(1)] Refer to note 10 c

AGT is bound by certain covenants within its general credit facilities. These covenants place restrictions on working capital ratios, total debt, including guarantees and set minimum levels of capital. As of December 31, 2017 and 2016, AGT met these requirements.

(Stated in thousands of Canadian dollars)

13. Finance expense

		2017		2016
Interest on bank indebtedness	$	3,681	$	5,715
Interest on long term debt		18,797		20,313
Trade finance fees and expenses		9,242		9,470
Amortization of note discount and debt fees		3,355		2,115
Foreign exchange		670		2,457
Fair value adjustment on derivative asset		-		(1,600)
	$	35,745	$	38,470

14. Expenses by nature

Certain expenses have been allocated on the Consolidated Statements of Comprehensive Loss in order to analyze expenses by their function. These expenses were allocated in the cost of sales, general administrative expenses and marketing, sales and distribution expense lines. The nature of these expenses is as follows:

		2017		2016
Employee salaries and benefits	$	92,894	$	97,186
Depreciation and amortization		30,746		26,998

(Stated in thousands of Canadian dollars)

15. Cash flow support

Adjustments to operating cash flow

	Note	2017	2016
Depreciation and amortization in general and administration		$ 4,771	$ 4,410
Depreciation in cost of sales		25,975	22,588
Amortization of note discount and debt fees	13	3,355	2,115
Long term debt accretion		604	-
Fair value adjustment on derivative asset	13	-	1,600
Unrealized foreign exchange loss		22,214	17,531
Gain on disposal of property, plant and equipment		(345)	(1,377)
Interest expense	13	22,478	26,028
Share based compensation		1,583	5,922
Provision for doubtful accounts		1,231	1,142
Income tax (recovery) expense		(5,142)	6,045
		$ 76,724	$ 86,004

Non-cash working capital

Details of net change in each element of working capital relating to operations excluding cash are as follows:

	2017	2016
Decrease (increase) in current assets:		
Trade accounts receivable	$ 55,544	$ (35,869)
Inventory	(22,034)	22,969
Prepaid expenses and other	(1,915)	(28,879)
	$ 31,595	$ (41,779)
Decrease in current liabilities:		
Accounts payable, accrued liabilities and deferred revenue	(92,270)	(4,988)
	$ (92,270)	$ (4,988)
	$ (60,675)	$ (46,767)

(Stated in thousands of Canadian dollars)

15. Cash flow support - continued

Financing activities and position

Details of changes in each element in the financing activities are as follows:

	Bank indebtedness	Long-term debt	Dividends and distributions payable	Preferred securities and warrants	Share capital and contributed surplus
Balance at December 31, 2016	$ 19,720	$ 547,995	$ 3,590	$ -	$ 375,459
Cash changes in financing					
Payments	(281,971)	(286,497)	(14,496)	-	-
Increases	292,134	198,627	-	188,141	3,835
Non-cash changes in financing					
Amortization on bond and note discount	225	3,130	-	-	-
Long term debt accretion	-	604	-	-	-
Dividends declared and accrued	-	-	14,542	-	-
Distribution accrued	-	-	3,441	-	-
Share based compensation	-	-	-	-	667
Effects of movements in exchange rates	725	1	-	-	-
Balance at December 31, 2017	$ 30,833	$ 463,860	$ 7,077	$ 188,141	$ 379,961

(Stated in thousands of Canadian dollars)

16. Income Taxes

(a) Tax rate reconciliation

The provision for income taxes differs from the amount computed by applying the expected income tax rate to earnings before income taxes. The reasons for these differences are as follows:

		2017		**2016**
Net (loss) earnings before income taxes	$	(42,065)	$	27,098
Combined federal and provincial rate		25.50%		25.50%
Computed income tax (recovery) expense		(10,727)		6,910
(Decrease) increase in taxes resulting from:				
Difference between Canadian rate and rates applicable to subsidiaries in other countries		(1,052)		(3,002)
Change in future tax rates in the US		705		-
Derecognition of previously recognized deferred tax amounts		-		1,374
Permanent differences and other		5,932		763
Income tax (recovery) expense	$	(5,142)	$	6,045
Current		1,101		4,375
Deferred		(6,243)		1,670
	$	(5,142)	$	6,045

(Stated in thousands of Canadian dollars)

16. Income Taxes - continued

(b) Significant components of deferred tax assets and liabilities

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of net deferred income tax liabilities are as follows:

	2016	Recognized in earnings (loss)	Recognized directly in equity	Recognized in OCI	2017
Assets:					
Operating loss carry forwards	$ 29,358	$ 3,251	$ 929	$ (865)	$ 32,673
Share issuance and financing costs	3,781	(609)	502	(226)	3,448
Unrealized foreign exchange losses	2,205	3,447	-	1,341	6,993
Other costs and adjustments	3,951	(740)	-	(153)	3,058
	$ 39,295	$ 5,349	$ 1,431	$ 97	$ 46,172
Liabilities:					
Non-financial assets	$ 46,480	$ (324)	$ -	$ (915)	$ 45,241
Preferred securities	-	-	42,529	-	42,529
Other costs and adjustments	2,448	(570)	-	(194)	1,684
	48,928	(894)	42,529	(1,109)	89,454
Net deferred income tax liability	$ (9,633)	$ 6,243	$ (41,098)	$ 1,206	$ (43,282)

	2015	Recognized in earnings (loss)	Acquired in business combinations	Recognized in OCI	2016
Assets:					
Operating loss carry forwards	$ 24,191	$ 5,804	$ -	$ (637)	$ 29,358
Share issuance and financing costs	3,998	(118)	-	(99)	3,781
Unrealized foreign exchange losses	1,605	(4,661)	-	5,261	2,205
Other costs and adjustments	5,431	(1,265)	-	(215)	3,951
	$ 35,225	$ (240)	$ -	$ 4,310	$ 39,295
Liabilities:					
Non-financial assets	$ 44,482	$ 2,478	$ 695	$ (1,175)	$ 46,480
Other costs and adjustments	3,515	(1,048)	-	(19)	2,448
	47,997	1,430	695	(1,194)	48,928
Net deferred income tax liability	$ (12,772)	$ (1,670)	$ (695)	$ 5,504	$ (9,633)

(Stated in thousands of Canadian dollars)

17. Related party transactions

(a) Key management personnel

AGT has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of AGT. The following table outlines the total compensation expense for key management personnel:

	2017	2016
Short term benefits (wage, bonus, vacation paid out, directors fees)	$ 4,286	$ 4,234
Post employment benefits (RRSP)	131	131
Share based compensation	842	3,209
	$ 5,259	$ 7,574

	2017	2016
Accounts receivable	$ 2,873	$ 227
Accounts payable	1,084	1,359

The accounts receivable in the table above relates to employee amounts primarily related to the exercise of options. The accounts payable in the table above relates to deferred compensation.

Transactions with key management and corporations significantly influenced or controlled by AGT directors or key management

Certain key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The transactions were conducted in the normal course of business and were accounted for at the exchange amount.

	2017	2016
Accounts receivable	$ 80	$ 39

	2017	2016
Purchases	$ 920	$ 1,016
Gain on sale of fixed assets	137	-

The transactions in the above table relate primarily to labour purchased from certain of AGT's key management.

In addition to the transactions above, AGT completed a swap of land with a company owned by certain of AGT's key management for a carrying value of $209. This transfer was done on a one to one basis for land of similar nature and value. This transaction was approved by the board of directors.

(Stated in thousands of Canadian dollars)

17. Related party transactions - continued

(b) Transactions with other related parties

	2017	2016
Accounts payable	$ 185	$ 467

	2017	2016
Purchases	$ 1,743	$ 985

The items in the above table relate primarily to transactions with companies which AGT owns part of but does not exhibit the definitions of control and are therefore not consolidated in AGT's overall results.

18. Segmented Reporting

AGT's chief operating decision maker reviews AGT's operations and resource allocation by multiple business segments. Business segments are strategic business units with different products, processes and marketing strategies. AGT has three segments: (1) pulse and grain processing (2) bulk handling and distribution and (3) food ingredients and packaged foods.

The pulse and grain processing includes the operations of AGT factories across its global platform. The activities in this segment are viewed by management as the traditional and regular business of AGT: to source pulses and grains from producers, process them through its factories and sell these products to its network of clients in over 100 countries in the world. The segment includes all pulses processed in AGT factories in Canada, the United States, Australia, Turkey and China.

Bulk handling and distribution, formerly trading and distribution, relates to AGT's activities aimed at bringing its range of pulses and specialty crops direct to wholesale and retail markets. The segment currently captures AGT operations in the UK, the Netherlands, Spain, Russia, Ukraine, India, Switzerland and part of Canada, Turkey and Australia. During the prior year, the Company rebranded this segment as bulk handling and distribution to better reflect the business operations undertaken within it. No changes to reporting or operations occurred within this segment.

Food ingredients and packaged foods includes the results from the pulse fractionation plant in Minot, North Dakota, as well as the results from the pasta, bulgur and semolina plants in Turkey and the operations in South Africa. This segment also includes the retail packaging and distribution business in Canada.

AGT's chief operating decision maker evaluates segment performance on the basis of Adjusted EBITDA**. Management believes that Adjusted EBITDA** is an important indicator of AGT's ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debt and fund future capital expenditures and uses the metric for this purpose.

The accounting policies used within each segment are consistent with the policies outlined in the notes to the Financial Statements. Segmented revenues, expenses and results include transactions between segments in the normal course of business and were accounted for at the exchange amount. Certain estimates and assumptions were made by management in the determination of segment composition.

FOOD AND INGREDIENTS INC.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Stated in thousands of Canadian dollars)

18. Segmented Reporting- continued

** Adjusted EBITDA is earnings before finance expense, income taxes, depreciation and amortization, one-time costs and any effects of non-cash foreign exchange adjustment.

2017	Pulse and Grain Processing	Bulk Handling and Distribution	Food Ingredients and Packaged Foods	Corporate and Eliminations	Consolidated
Revenue	$ 1,070,394	$ 525,381	$ 316,578	$ (177,066)	**$ 1,735,287**
Cost of sales	1,021,549	509,397	275,221	(177,066)	**1,629,101**
Gross profit	48,845	15,984	41,357	-	**106,186**
Earnings (loss) before income taxes	**8,068**	**(1,429)**	**21,139**	**(69,843)**	**(42,065)**
Net earnings (loss)	**8,068**	**(1,429)**	**21,139**	**(64,701)**	**(36,923)**
Adjusted EBITDA**	**$ 35,072**	**$ 6,483**	**$ 32,966**	**$ (9,647)**	**$ 64,874**

2016	Pulse and Grain Processing	Bulk Handling and Distribution	Food Ingredients and Packaged Foods	Corporate and Eliminations	Consolidated
Revenue	$ 1,266,527	$ 612,807	$ 290,165	$ (196,295)	**$ 1,973,204**
Cost of sales	1,162,790	588,133	244,792	(196,295)	**1,799,420**
Gross profit	103,737	24,674	45,373	-	**173,784**
Earnings (loss) before income taxes	**66,042**	**7,359**	**25,905**	**(72,208)**	**27,098**
Net earnings (loss)	**66,042**	**7,359**	**25,905**	**(78,253)**	**21,053**
Adjusted EBITDA**	**$ 83,319**	**$ 10,115**	**$ 35,120**	**$ (9,740)**	**$ 118,814**

As at December 31, 2017	Pulse and Grain Processing	Bulk Handling and Distribution	Food Ingredients and Packaged Foods	Corporate and Eliminations	Consolidated
Intangible assets	$ 5,952	$ 850	$ 6,422	$ -	**$ 13,224**
Goodwill	37,277	6,830	11,120	-	**55,227**
Purchase of property, plant and equipment	31,854	159	16,716	-	**48,729**
Depreciation and amortization	18,234	1,080	10,721	711	**30,746**

As at December 31, 2016					
Intangible assets	$ 5,983	$ 1,121	$ 7,155	$ -	**$ 14,259**
Goodwill	38,781	7,252	12,623	-	**58,656**
Purchase of property, plant and equipment	33,874	95	46,399	-	**80,368**
Final purchase price adjustment on 2015 business combination	2,569	-	-	-	**2,569**
Depreciation and amortization	15,445	1,150	8,271	2,132	**26,998**

(Stated in thousands of Canadian dollars)

19. Sales and selected geographic information

Geographic information about AGT's revenues is based on the product type and shipment destination.

		2017		2016
Pulses and specialty crops	$	883,174	$	1,172,950
Pasta, semolina and bulgur		121,657		134,929
Rice		103,576		73,030
Other commodities and miscellaneous revenue		626,880		592,295
	$	1,735,287	$	1,973,204

Sales derived from customers located in the following geographic areas:

		2017		2016
Canada	$	119,155	$	108,046
Americas / Caribbean, excluding Canada		251,293		235,990
Asia / Pacific Rim		388,611		545,121
Europe / Middle East / Africa		976,228		1,084,047
	$	1,735,287	$	1,973,204

Sales and Major Customer

There were no major customers that represented more than 10% of consolidated revenue for the year ended December 31, 2017 (December 2016 - 11.0 % or $217,384).

(Stated in thousands of Canadian dollars)

19. Sales and selected geographic information - continued

	Property, plant and equipment	
	2017	2016
Canada	$ 213,083	$ 201,602
United States	102,129	105,670
Turkey	77,029	83,529
Australia	34,510	34,070
China	6,016	6,423
South Africa	4,859	4,814
	$ 437,626	$ 436,108

	Intangibles	
	2017	2016
Canada	$ 8,608	$ 8,679
Turkey	2,344	3,005
China	1,358	1,385
United Kingdom	849	1,121
South Africa	65	69
	$ 13,224	$ 14,259

	Goodwill	
	2017	2016
Canada	$ 28,503	$ 28,503
Turkey	23,177	26,691
United Kingdom	3,485	3,400
Australia	49	49
United States	13	13
	$ 55,227	$ 58,656

20. Commitments and contingencies

AGT enters into contracts with producers. The contracts provide for delivery of specific quantities and include specific prices based on the grade that is delivered. The terms of the production contracts are not longer than one year.

At December 31, 2017 AGT had a contract of insurance in favour of the Canadian Grain Commission in the amount of $13,000 (December 31, 2016 – $13,000). The policy can be claimed against by the beneficiary in the event of a producer grain payment default. The policy expires on June 30, 2018.

At December 31, 2017, AGT had letters of guarantee in Turkey for the amount of $4,049 (December 31, 2016 - $7,005).

AGT has various legal matters pending which, in the opinion of management, will not have a material effect on AGT's consolidated financial position or results of operations. Should the ultimate resolution of actions differ from management's assessments and assumptions, a material adjustment to AGT's financial position or results of operations could result. Should circumstances change, provisions could change materially.