





This year's annual report is dedicated in memory of our founding CEO and friend, Rob Stenson.

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Transfer Agent: Computershare Investor Services Inc.

Shares Listed: Toronto Stock Exchange  
Stock Symbol: AFN

Ag Growth IPO: May 18, 2004 (Founded 1996)  
Batco Manufacturing, Acquired: 1997 (Founded 1992)  
Wheatheart Manufacturing, Acquired: 1998 (Founded 1973)  
Westfield Industries, Acquired: 2000 (Founded 1950)  
Edwards Group, Acquired: 2005 (Founded 1964)  
Hi Roller Conveyors, Acquired: 2006 (Founded 1982)  
Twister Pipe Ltd., Acquired: 2007 (Founded 1976)  
Union Iron, Inc., Acquired: 2007 (Founded 1852)  
Applegate Steel Inc., Acquired: 2008 (Founded 1955)  
Mepu Oy, Acquired: 2010 (Founded 1952)  
Franklin Enterprises, Acquired: 2010 (Founded 1979)  
Tramco Inc., Acquired: 2010 (Founded 1967)  
Airlanco Inc., Acquired: 2011 (Founded 2000)

From left to right: Bill Lambert, Board of Directors Chairman and Director; Bill Maslechko, Governance Committee Chairman and Director; Gary Anderson, President, Chief Executive Officer and Director; Steve Sommerfeld, CA, Executive Vice President and Chief Financial Officer; John R. Brodie, FCA, Audit Committee Chairman and Director; David White, CA, Director



## NOVEMBER **1996**

In November 1996, Ag Growth International was incorporated as a Junior Capital Pool on the Alberta Stock Exchange.

## NOVEMBER **1997**

In November 1997, Batco Manufacturing was acquired through a reverse takeover by AGI. Batco was established in 1992.

**MAY 1998**

In May 1998, AGI acquired Wheatheart Manufacturing. Wheatheart was established in 1973.

**MAY 2000**

Established in 1950, Westfield Industries was acquired by AGI in May 2000. This was our transformational event.



**MAY 2004**

AGI launched an Initial Public Offering in May 2004 on the Toronto Stock Exchange as an Income Trust.



# CEO MESSAGE

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On behalf of our Board of Directors and all of us at AGI, I am pleased to provide you with Ag Growth International's 2011 Annual Report. This year's report is special in a couple of ways. We want to recognize our 15th anniversary since incorporation in November 1996, and we want to pay tribute to our founding CEO and friend Rob Stenson who passed away October 15th, 2010 at 44 years of age. In doing so, we will draw upon a few stories and photos to accentuate the positives that have been woven into the fabric of our culture. Hopefully it will provide some additional perspective on 2011, a year of challenge that ended on a better foot than it had started.

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Sales in Q-4, 2011 were \$67 million compared to \$49.4 in Q-4, 2010, while Adjusted EBITDA of \$8.4 million in Q-4, 2011 exceeded Q-4, 2010 Adjusted EBITDA of \$6.7 million by 25%. Fiscal 2011 sales were \$301 million up from \$262 million in fiscal 2010. Adjusted EBITDA however did not track favourably at \$53.3 million, down from \$59.7 million in fiscal 2010. The reasons have been well documented throughout the year. Start-up challenges at our Twister greenfield plant and an off year at our Mepu division in Finland combined to negatively impact Adjusted EBITDA by \$7.7 million compared to 2010 results. FX accounted for an additional negative impact of \$5.8 million on Adjusted EBITDA in 2011 compared to 2010. Our MD&A provides considerable clarity and detail for these and other performance related events throughout the year.

Our single biggest initiative in 2011 was working through the start-up challenges at the Twister greenfield plant. A year ago at the time of this writing, we were enthusiastically awaiting the final commissioning of our new production lines. New bin sales were being closed and everyone anticipated that success was close at hand. Unfortunately it wasn't and we found it necessary to temporarily stand down our international sales team and regroup. Since then, we have directed substantial

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## International sales activity in general remains very strong. We continue to invest in sales, engineering and support resources to build our global competencies.

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resources toward production engineering and support, while continuing the development and refinement of the new product designs. Order has been restored to both the production floor and shipping. Exceptional commitment to discipline and diligence has been incorporated into the quoting process as a plethora of individual sizes and specifications are being quoted for the first time. We are extremely pleased and grateful for the extra effort and teamwork demonstrated by everyone involved. One would be hard pressed to find a better example of cooperation anywhere between sales, engineering, production and finance teams. As a result, we expect to take a much needed step forward in 2012.

We have also moved past Mepu's challenges from 2011. Sales in 2011 were sufficient to flush through carryover inventory in the marketplace, creating the expectation for a more positive 2012. This season we have been more proactive with our steel procurement which will help protect margins in 2012. Recent progress in establishing regional sales and distribution capabilities for the broader AGI catalogue are gaining traction, as evidenced in both quoting activity and order backlogs. International sales activity in general remains very strong. We continue to invest in sales, engineering and support resources to build our global competencies. We started this initiative in late 2007 and since then our offshore sales have grown from approximately 4% of total sales to 18%. Given early

**APRIL 2005**

In April 2005, AGI acquired Edwards Group from Lethbridge, Alberta. Edwards Group was founded in 1964.

quoting and sales activity in 2012, we should expect further growth this year.

Over the past few weeks, I have attended two major North American trade shows. I came away from both shows feeling a sense of pride in our teams and in the strength of our brands. The first show was the National Farm Machinery Show in Louisville, Kentucky, which houses over one million square feet of exhibitors serving farmers throughout the USA. This is an event that all stakeholders in agriculture should consider attending. The entire farm industry is represented including our Westfield, Batco, Wheatheart, Grain Guard, Applegate and HSI brands. Farmers expressed continued optimism for the year ahead, with preliminary intentions to plant plenty of corn acres. The second show was part of the annual GEAPS conference (Grain Elevator and Processing Society). It offers an exceptional glimpse into the commercial side of the grain business. This year it was hosted by the Minneapolis chapter. Our Hi Roller, Union Iron Works, Tramco and Airlanco divisions all displayed at this show.

We received a number of compliments from the industry regarding the acquisition of Airlanco, a niche brand with a wonderful reputation. Last year while at the conference in Portland, we were inundated with positive comments about our acquisition of Tramco as a powerful international brand. It serves as a reminder that there are lots of positives to take away from 2011. Yes, we took a step back

in 2011 and for that we are all disappointed. But we also made substantial progress on a number of fronts. All said, I believe we have now made it through another one of those tough periods in our development.

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We couldn't have done it without the unwavering support of our Board, the resolve of our team and the understanding of our shareholders. We are extremely grateful to all. We look forward to delivering results in the future that will make it all worthwhile.

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# STRONG ROOTS

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Whenever presented with the opportunity to tell someone about our company, I inevitably look for a chance to proclaim that “our roots are in Batco Manufacturing of Swift Current, Saskatchewan”. It was there that the seeds of Ag Growth took hold. Art Stenson started Batco in June 1992, a modest venture to build two-wheel hand carts. Soon afterwards, Art turned his attention to grain handling. His first belt conveyor prototype was designed in 1993. The following summer, Art’s brother Rob offered to lend a hand while home from university. Rob became so captivated by the business that he returned the following year upon completing his MBA. The brothers became 50/50 partners. These were the days when sales, production and delivery

activities were often centered around making payroll, with Art and Rob doing whatever it took to look after their employees. When I joined in 1996, as General Manager, there were about a dozen employees. I’m pleased to say that Judy, Gerry, Brent, Joe, Garry and Clayton remain part of the AGI family today.

Batco was a one-product wonder in a regional market, too small to be significant to most dealers and one bad weather event away from disaster. We needed to grow quickly, but that would require capital. One night in the fall of 1996, Rob and I were scheming on how best to realize

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Our roots are in Batco Manufacturing of Swift Current, Saskatchewan.

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*September 1997 issue  
of Profit Magazine –  
Named one of Canada's  
top ten hottest start-ups*



*May 1997,  
announcing  
going public  
on ASE*

the potential we believed lay before us. I told him about my brother-in-law's recent involvement in Junior Capital Pools on the Alberta Stock Exchange. The light came on in an instant – we would take the company public. Drafting of the business plan didn't take long. I still have the flip charts that flushed out our two-prong strategy of catalogue expansion and geographic diversification. The market was ready for a consolidator. Rob and I headed to Calgary in our one-ton delivery truck, barely able to contain our enthusiasm. Two days of door knocking later, there were no bites. I headed home to attend to work, but Rob stayed on. He said he would catch a bus later. It was then that I

first came to appreciate Rob's absolute refusal to give up on a scent. By the end of the week, he had found a JCP shell, controlled by Jack Lee, an oilman formerly from Swift Current. On November 7, 1996 we were incorporated as Ultra Capital Inc. Early the following year, we completed a private placement subscribed by local investors to help fund the construction of a much needed production facility. In early June, 1997, shortly after Steve Sommerfeld joined us as CFO, we began trading on the ASE. Our early financial partners included South West Credit Union, Business Development Bank, SOCO (Saskatchewan Opportunities Corp), and Export Development Canada. The role these

entities played was pivotal in our early development. EDC remains a strategic partner with AGI to this day.

Our first acquisition in May of 1998, was Wheatheart Hydrostatic and Machine of Saskatoon. It was a friendly deal, as the vendors were well known to the Stensons. Again, after a lot of door knocking, we were able to raise the required \$8 million, including an equity investment from Agri Food Equity Fund and \$5.5 million term debt from TD Bank. It was a fantastic acquisition, but the untimely onset of the Asian economic flu made it impossible for us to make our first loan payment six weeks later.

# STRONG ROOTS



*The Stenson brothers with wives, Linda and Sue*

Fortunately we benefited from the experience of veteran lender and TD Bank Manager, Ian McNaughton. He told us to simply service the interest monthly until the following January. That we did and two years later TD Bank backed us with \$40 million term debt for the acquisition of Westfield Industries, the world's largest manufacturer of grain augers. It was a deal of a lifetime and part of a \$113 million transaction that saw us buy ourselves off the public markets. We brought in Tricor Pacific Capital of Vancouver as our private equity sponsor. Roynat and McKenna Gale provided the mezzanine capital and a vendor note sealed the deal. It may sound easy into today's world, but back then our sales were only \$10 million and our EBITDA approximated \$2 million. It was a David and

Goliath feat that took 15 months to complete. I swear Rob spent more time convincing the owners of Westfield to take him seriously than he did raising the capital. Not to say that raising money was easy. It was in the height of the Dot Com craze and Ag wasn't very sexy. In fact, few people in those days, outside of Rob, championed the long-term fundamentals of agriculture.

The Westfield acquisition was truly a transformational event. It gave us access to an extensive distribution network and economies of scale that were generations in the making. We were highly levered so we put our heads down and worked hard, growing organically and paying off the debt. Thankfully we had acquired an experienced

team, led by Ron Braun, and they weren't afraid of hard work. Our cultures melded almost immediately and we were on our way. Today Westfield remains the world leader in grain augers and has almost tripled in sales and profitability since our acquisition 12 years ago. Our four years with private equity gave us time to fully digest our transformational acquisition. We had learned the business well and were confident in taking it to a new level. It was time to get on with our original business plan and in 2004 we launched our IPO on the Toronto Stock Exchange.

Gaining access to public markets proved valuable to our strategy as a consolidator. In the nearly eight years since we went public on the TSE, we have acquired three



*At E&Y  
Entrepreneur  
of the Year  
Awards, 2007*



*Mepu, AGI's  
first offshore  
acquisition*

companies in Canada, five in the USA and one offshore. With the exception of the Edwards acquisition in April 2005, our major initiatives have taken place in clusters, followed by periods of digestion. In a period of roughly twelve months ending January 2008, we acquired Hi Roller, Twister, Union Iron Works and Applegate. We spent the next two plus years integrating operations, introducing lean manufacturing and developing offshore market opportunities. In the next 17 months ending October 2011, we acquired Mepu, Franklin, Tramco and Airlanco. During this period, we also expanded our Westfield and Edwards facilities, consolidated Lethbridge/Nobleford and Wheatheart/Franklin and launched the Twister greenfield storage bin facility in Alberta.

As we look back at our 15 years of development, we do so with both pride and humility. We are proud of the business we have grown from start-up, but even more proud of the team we have assembled along the way. We recognize

we wouldn't have made it without them or our financial partners. It has been a lot of work but also a lot of fun. Together we have established strong roots capable of great endeavours. Thanks everyone.

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As we look back at our 15 years of development, we do so with both pride and humility.

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# THE WAKE AT TRIPLE B'S



It was our local watering hole. Within walking distance of our first AGI office. A family owned business consisting of a pub, eatery and pool hall. The large horseshoe-shaped bar near the entrance had been handcrafted by the owner. Fifteen pool tables were spread out across a vast open room adorned with murals of classic musicians. Tonight it was closed to the public. A table had been placed near the entrance for donations to the Victoria General Hospital. The owners of Triple B's had been more than happy to accommodate Rob's request to use their facility for his wake. Why wouldn't they? Rob was a friend. Hundreds of fellow friends and family had been at the Faith Lutheran Church service earlier in the afternoon. It had been a tough day for all of us and now it was time to kick back and reminisce. People streamed in way beyond expectations, but there was plenty of food and drinks for all.

Family values



Fighting instincts



Beautiful family



Cheers



The service had gone off without a hitch, except for some temporary technical problems with the slide show. And even that seemed appropriate. It was perhaps Rob's parting bit of humour. He had always been jinxed with technology. He claimed that his mere presence near a photocopier would cause it to jam. This was a man whose sunroof randomly opened on his vehicle, usually when it was raining. In the end, the slide show worked...and it was worth the wait. We brought it with us to the wake that evening, wanting to keep as much of Rob with us as we could. We played it over and over again. He had packed a lot of living into his 44 years and two months. The photos were evidence of that.

The slides spanned the length of three songs. They were mostly of family. Rob's, Sue's, theirs...leaving no doubt about Rob's priorities. As successful and driven an entrepreneur as Rob was, his finest hours were family times. There were photos of a young boy reading, a pursuit

that became a lifelong passion. A picture of Rob decaling a truck for his first business venture at age 19, a paving company with friend and partner Eddie Slusar. Lots of pictures of winter vacations. In the paving business, there were no summer holidays, good training for his future career in agriculture. There were pictures of his university days when he first set out on his new path. Photos of the family business that developed into a successful public company.

The music accompanying the slides was set to Eric Clapton's *Tears In Heaven*, Norah Jones' *Don't Know Why*, and Ray Charles's *Georgia On My Mind*. Music had been such a huge part of Rob's life. Throughout the evening, the sound system carried many of Rob's favourite tunes above the steadily increasing roar of the crowd...Robert Johnson, Lightning Hopkins, JJ Cale, The Travelling Wilburies and his all-time favourite, Stevie Ray Vaughn. The evening had a special buzz to it. No one wanted to leave. Everyone

wanted to share their stories of an exceptional man whom they had grown to know and love. There were people from all walks of life and from all across our country. Late into the night when the last of us left, we did a tally of the funds raised. Over \$80,000 had been donated for the purpose of purchasing special air cushioned beds for the hospital. Rob had benefitted from such a bed, and it was his request that we help buy some more so that others could rest in comfort. The exceptional generosity was a fitting end to a special evening, Rob's Wake at Triple B's.

Sincerely,

Gary Anderson  
President and CEO

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## March 14, 2012

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ag Growth International Inc. ("Ag Growth", the "Company", "we", "our" or "us") for the year ended December 31, 2011. Results are reported in Canadian dollars unless otherwise stated.

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

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

This MD&A contains forward-looking statements. Please refer to the cautionary language under the heading "Risks and Uncertainties" and "Forward-Looking Statements" in this MD&A and in our most recently filed Annual Information Form.

### SUMMARY OF RESULTS

Ag Growth achieved record sales for the year ended December 31, 2011, due largely to revenues from divisions acquired in 2010 and 2011. The Company ended the year with a strong fourth quarter due to robust preseason sales of portable equipment and continued domestic strength in commercial grain handling. Adjusted EBITDA for the fiscal year decreased compared to 2010 due to the impact of foreign exchange, start-up challenges at the Company's Twister greenfield storage bin plant and regional market issues at the Company's Finland-based Mepu division.

These three items negatively impacted adjusted EBITDA by approximately \$13.5 million compared to the prior year.

Net profit and diluted profit per share for the year ended December 31, 2011 decreased compared to the prior year due to the factors discussed above and a decrease of \$4.3 million in the Company's gain on foreign exchange. The decrease in the foreign exchange gain was in part the result of \$0.3 million non-cash loss (2010 – gain of \$1.3 million) related to the translation of its U.S. dollar denominated debt into Canadian dollars at the year-end exchange rate.

DECEMBER 2006

Founded in 1982, Hi Roller was acquired in December of 2006.

(thousands of dollars)	Year ended December 31	
	2011	2010
Trade sales (1)(2)	<b>301,014</b>	262,260
Adjusted EBITDA (2)	<b>53,274</b>	59,730
Net Profit	<b>24,523</b>	30,761
Diluted profit per share	<b>1.95</b>	2.40
Funds from operations (2)	<b>40,471</b>	53,067
Dividends per share	<b>2.40</b>	2.07
Payout ratio (2)	<b>75%</b>	50%

(1) Sales excluding gains or losses on foreign exchange contracts.  
(2) See “Non-IFRS Measures”.

A brief summary of our operating results can be found below. A more detailed narrative is included later in this MD&A under “Explanation of Operating Results”.

### Acquisitions in 2010 and 2011

To enhance the comparison of results between 2011 and 2010, we often refer to results “excluding acquisitions” so the analysis is comparing only the divisions that were owned for the full twelve months in both periods. When comparing results “excluding acquisitions” for the twelve month periods, the comparison excludes Mepu, Franklin, Tramco and Airlanco.

### Trade sales (see non-IFRS measures)

Trade sales in 2011 increased compared to 2010 due to revenues from divisions acquired in 2010 and 2011, continued strength in commercial grain handling and an increase in storage bin sales. Portable grain handling sales as measured in base currencies ended 2011 roughly

On October 4, 2011, the Company acquired the operating assets of Airlanco, a manufacturer of aeration products and filtration systems.

flat compared to 2010, despite less than optimal harvest conditions that reduced in-season third quarter sales, due to strong preseason demand as dealers began building inventory levels in advance of the 2012 season.

Trade sales for the year ended December 31, 2011 were significantly impacted by the rate of exchange between the Canadian and U.S. dollars. Ag Growth’s average rate of foreign exchange in 2011 was \$0.97 CAD per one U.S. dollar (2010 – \$1.04 CAD per one U.S. dollar). Had the foreign exchange rates experienced in 2010 been in effect in 2011, trade sales in 2011, excluding acquisitions, would have increased by approximately an additional \$12.6 million.

### Gross margin (see non-IFRS measures)

The gross margin percentages at divisions owned for a full twelve months in both 2010 and 2011 were relatively consistent year over year, with the exception of the Edwards/Twister division, despite significant foreign exchange headwinds. Excluding acquisitions and Edwards/Twister, the Company’s gross margin percentage was 41% in both 2010 and 2011. The Company was able to maintain

these strong margins due to high throughput levels and continued investment in manufacturing through capital expenditures and lean manufacturing practices.

The Company’s consolidated gross margin percentage decreased from 39% in 2010 to 34% in 2011 due to the impact of foreign exchange, sales mix and challenges at the Company’s Edwards/Twister and Mepu divisions. The factors that impacted gross margins at these divisions are discussed in more detail later in this MD&A.

### Adjusted EBITDA (see non-IFRS measures)

Adjusted EBITDA in 2011 benefited from high levels of domestic demand for commercial equipment, strong post-harvest demand for portable grain augers and lower expenses related to stock based compensation and performance related bonuses.

The stronger Canadian dollar in 2011 negatively impacted adjusted EBITDA by approximately \$5.7 million compared to 2010. Challenges experienced at the Edwards/Twister and Mepu divisions, which are discussed in more detail later in this MD&A, contributed to a decrease in adjusted EBITDA of \$7.7 million compared to 2010.

### Diluted profit per share

The decrease in diluted profit per share compared to 2010 is primarily the result of the decrease in adjusted EBITDA discussed above. In addition, the Company's gain on foreign exchange decreased \$4.3 million compared to 2010 due to a \$0.3 million non-cash loss on the translation of the Company's U.S. dollar denominated debt to Canadian dollars (2010 – gain of \$1.3 million) and less favourable foreign exchange hedging rates.

### Payout ratio (see non-IFRS measures)

The Company's payout ratio increased to 75% (2010 – 50%) due largely to the factors that impacted adjusted EBITDA as discussed above. The increase compared to 2010 is partially attributable to the increase in Ag Growth's monthly dividend rate implemented in November 2010. Ag Growth's payout ratio in 2010 would have been 58% based on the current dividend rate of \$2.40 per annum.

### CORPORATE OVERVIEW

We are a manufacturer of agricultural equipment with a focus on grain handling, storage and conditioning products. Our products service most agricultural markets including the individual farmer, corporate farms and commercial operations. Our business is affected by regional and global trends in grain volumes, on-farm and commercial grain storage and handling practices, and crop prices. Our business is seasonal, with higher sales occurring in the second and third calendar quarters compared with the first and fourth quarters.

We manufacture in Canada, the US and Europe and we sell products globally, with most of our sales in the US.

The following table sets forth our geographic concentration of sales for the periods indicated.

### Trade sales by geographic region

(thousands of dollars)	Year ended December 31	
	2011	2010
Canada	63,746	57,971
US	182,727	167,482
Overseas	54,541	36,807
Total	301,014	262,260

Our business is sensitive to fluctuations in the value of the Canadian and US dollars as a result of our exports from Canada to the US and as a result of earnings derived from our US based divisions. Fluctuations in currency impact our results even though we engage in currency hedging with the objective of partially mitigating our exposure to these fluctuations.

Our business is also sensitive to fluctuations in input costs, especially steel, a principal raw material in our products. Steel represented approximately 30% of production costs in fiscal 2011 (2010 – 29%). Short-term fluctuations in the price of steel impact our financial results even though we strive to partially mitigate our exposure to such fluctuations through the use of long-term purchase contracts, bidding commercial projects based on current input costs and passing input costs on to customers through sales price increases.

The inclusion of the assets, liabilities and operating results of a number of acquisitions significantly impact

comparisons between 2011 and 2010. These acquisitions are summarized briefly below.

### Acquisitions in fiscal 2011

**Airlanco** – On October 4, 2011, the Company acquired the operating assets of Airlanco, a manufacturer of aeration products and filtration systems that are sold primarily into the commercial grain handling and processing sectors. The purchase price of \$11.5 million was financed primarily from Ag Growth's acquisition line of credit while costs related to the acquisition of \$0.2 million and a working capital adjustment of \$0.4 million were financed by cash on hand. The purchase price represents a valuation of approximately five times Airlanco's normalized fiscal 2010 EBITDA. Airlanco is located in Falls City, Nebraska and has traditionally served customers headquartered or located in North America. The Company had sales of approximately \$11 million in 2010, operating out of an 80,000 square foot facility with 65 employees.

### Acquisitions in fiscal 2010

**Mepu** – Ag Growth acquired 100% of the outstanding shares of Mepu Oy ("Mepu") on April 29, 2010, for cash consideration of \$11.3 million, plus costs related to the acquisition of \$0.6 million and the assumption of a \$1.0 million operating line. The acquisition was funded from cash on hand. Mepu is a Finland based manufacturer of grain drying systems and other agricultural equipment. The acquisition of Mepu provided the Company with a complementary product line, distribution in a region where the Company previously had only limited representation and a corporate footprint near the growth markets of

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The USDA is currently forecasting that U.S. farmers in 2012 will plant 94 million acres of corn, the highest planting level since 1944. Based on the USDA yield estimate, this may result in a corn crop in excess of 14 billion bushels (2011 – 12.4 billion bushels).

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Russia and Eastern Europe. Mepu had average sales and EBITDA of approximately 14 million Euros (CAD \$19 million) and 1.5 million Euros (CAD \$2 million), respectively, in the three fiscal years prior to acquisition. The nature of Mepu's business is very seasonal with a heavy weighting towards the second and third quarters.

**Franklin** – Ag Growth acquired the assets of Winnipeg-based Franklin Enterprises Ltd (“Franklin”) effective October 1, 2010 for cash consideration of \$7.1 million, plus costs related to the acquisition of \$0.4 million and a working capital adjustment of \$1.7 million. The acquisition was funded from cash on hand. Franklin enhances Ag Growth's manufacturing capabilities and can increase production capacity in periods of high in-season demand. Franklin has played an integral role in the development of Ag Growth's new storage bin product line. Franklin's custom manufacturing business generates monthly sales of approximately \$1 million and roughly breaks even on an EBITDA basis.

**Tramco** – Ag Growth acquired 100% of the outstanding shares of Tramco, Inc. (“Tramco”), on December 20, 2010, for cash consideration of \$21.5 million, less a working capital adjustment of \$1.3 million. Costs related to the acquisition were \$0.5 million. The acquisition was funded from cash on hand. Tramco is a manufacturer of heavy duty chain conveyors and related handling products, primarily for the grain processing sector. Tramco is an industry leader with a premier brand name and strong market share and as such provides the Company with an excellent entry point into a new segment of the food supply chain. Tramco had average sales and EBITDA of approximately \$30 million and \$4 million, respectively, in the two fiscal years prior to acquisition. Tramco manufactures in Wichita, Kansas, and in Hull, England and has a sales office in the Netherlands.

#### **OUTLOOK**

Management expects demand for portable grain handling equipment in 2012 will benefit from positive on-farm

economics, the potential for a large number of corn acres in the U.S. and a return to normalized conditions in western Canada. The USDA is currently forecasting that U.S. farmers in 2012 will plant 94 million acres of corn (2011 – 92 million acres), the highest planting level since 1944. Based on the USDA yield estimate, this may result in a corn crop in excess of 14 billion bushels (2011 – 12.4 billion bushels). In western Canada, management anticipates that seeded acres will more closely approximate traditional levels as current conditions are not indicative of the excessive spring flooding that resulted in 4 million acres of farmland going unseeded in 2011.

Sales of commercial equipment in North America were at record levels in 2011 due to positive agricultural economics and a commercial infrastructure which is expanding its capacity to accommodate the growing number of total bushels of grain in the system. Based on current conditions management anticipates continued high levels of domestic demand in 2012, however domestic sales may fall below the record sales achieved in 2011. International commercial grain handling sales are expected to increase compared to 2011 as the Company remains very encouraged with respect to the outlook for developing markets and the potential of product bundling with storage bins and other Ag Growth products.

Entering 2012, management believes the start-up challenges at our greenfield storage bin facility at Twister are largely resolved however targeted gross margins may not be immediately achieved. Interest in our storage bin product line remains strong both domestically and

overseas and management retains a very positive outlook for contributions from this plant in 2012 and beyond. The new bins have been well received by our domestic and international customers.

Management expects earnings from Mepu in 2012 to improve significantly compared to 2011 due to improved market conditions, largely the result of a favourable 2011 harvest, and improved steel cost alignment. Mepu has historically been very seasonal, with negative EBITDA in the first and fourth quarters, and this trend is expected to continue in 2012.

Ag Growth remains very optimistic with respect to its international potential. The Company has continued to invest in its international development with additions to its sales team and has recently opened sales offices in Columbia, Argentina and Latvia. Ag Growth's international sales backlog for 2012 is significantly higher compared to the backlog at this time in 2011. The Company's geographic scope of activity continues to expand beyond the original areas of focus of Russia, Eastern Europe and Latin America to include increased activity in Southeast Asia, the Middle East and Africa.

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Management expects gross margins in portable and commercial handling equipment to remain strong in 2012 and expects margin improvements at the Mepu and Twister divisions. The Company's gross margin expectations for storage products in 2012 are significantly higher than those achieved in 2011. However, storage sales are expected to comprise a higher proportion of total sales in 2012 and this change in sales mix is expected to reduce gross margin on a consolidated basis. As a result of these offsetting factors, Ag Growth's consolidated gross margin percentage in 2012 is expected to remain relatively consistent with 2011.

Consistent with prior years, demand in 2012, particularly in the second half, will be influenced by crop and harvest conditions. Changes in global macro-economic factors, including the availability of credit in new markets, also may influence demand, primarily for commercial grain handling and storage products. Results may be also be impacted by changes in steel costs and other material inputs. The rate of exchange between the Canadian and US dollars may impact the comparison of results between 2012 and 2011. The Company's average rate of exchange in 2011 was \$1 USD = CAD \$0.97.

**MAY 2007**

Established in 1976, Twister was acquired in May of 2007 by AGI.



## DETAILED OPERATING RESULTS

(thousands of dollars)	Year ended December 31	
	2011	2010
Trade sales (1)	<b>301,014</b>	262,260
Gain on foreign exchange (2)	<b>4,918</b>	7,007
Sales	<b>305,932</b>	269,267
Cost of inventories	<b>198,767</b>	160,581
Depreciation & amortization	<b>5,436</b>	3,377
Cost of sales	<b>204,203</b>	163,958
General and administrative	<b>49,392</b>	46,009
Transaction expenses	<b>1,676</b>	1,696
Depreciation & amortization	<b>3,758</b>	3,353
Other operating income	<b>(100)</b>	(605)
Finance costs	<b>12,668</b>	12,484
Finance loss (income)	<b>159</b>	(2,065)
Profit before income taxes	<b>34,176</b>	44,437
Current income taxes	<b>3,910</b>	5,627
Deferred income taxes	<b>5,743</b>	8,049
Profit for the period	<b>24,523</b>	30,761
Net profit per share		
Basic	<b>1.97</b>	2.43
Diluted	<b>1.95</b>	2.40

(1) See "Non-IFRS Measures".

(2) Primarily related to gains on foreign exchange contracts.

## EBITDA RECONCILIATION

(thousands of dollars)	Year ended December 31	
	2011	2010
Profit before income taxes	<b>34,176</b>	44,437
Finance costs	<b>12,668</b>	12,484
Depreciation in cost of sales and G&A expenses	<b>5,418</b>	3,312
Amortization in cost of sales and G&A expenses	<b>3,776</b>	3,418
Accelerated vesting and death benefits	<b>0</b>	2,549
<b>EBITDA (1)</b>	<b>56,038</b>	66,200
Transaction costs	<b>1,676</b>	1,696
Gain on foreign exchange in sales (2)	<b>(4,918)</b>	(7,007)
Loss (gain) on foreign exchange in finance income	<b>276</b>	(1,300)
Loss on sale of property, plant & equipment	<b>76</b>	262
Other operating expense	<b>126</b>	(121)
<b>Adjusted EBITDA (1)</b>	<b>53,274</b>	59,730

(1) See "Non-IFRS Measures".

(2) Primarily related to gains on foreign exchange contracts.

## ASSETS AND LIABILITIES

(thousands of dollars)	Year ended December 31	
	2011	2010
Total assets	<b>394,566</b>	398,385
Total liabilities	<b>192,407</b>	188,091

## EXPLANATION OF OPERATING RESULTS

### Trade sales

(thousands of dollars)	Year ended December 31	
	2011	2010
Trade sales	<b>301,014</b>	262,260
Trade sales excluding acquisitions (1)	<b>238,478</b>	247,727
Trade sales excluding acquisitions, adjusted for FX (2)	<b>251,141</b>	247,727

(1) Trade sales excluding acquisitions completed in 2010 and 2011.

(2) Trade sales excluding acquisitions and adjusted to assume the 2011 FX rate was identical to the rate in 2010.

Trade sales were negatively impacted by a stronger Canadian dollar compared to 2010. If the Canadian/US dollar exchange rates in 2011 had been the same as in 2010, trade sales excluding acquisitions for the year ended December 31, 2011 would have been \$12.6 million higher and exceeded the levels achieved in 2010.

Trade sales in 2011 benefited from continued strength in commercial grain handling, increased storage bin sales and revenues from acquisitions completed in 2010 and 2011. Portable grain handling sales as measured in base currencies ended 2011 roughly flat compared to 2010, despite less than optimal growing conditions that reduced in-season third quarter sales, due to strong preseason demand as dealers began building inventory levels in advance of 2012.

International trade sales in the year ended December 31, 2011 were \$54.5 million (2010 – \$36.8 million). The increase of 42% from a year earlier was primarily due to our 2010 acquisitions of Mepu and Tramco. Excluding acquisitions, international trade sales in 2011 were \$23.2 million, compared to \$27.4 million in 2010. The year over year decrease is largely due to the inclusion of a single \$10 million sale to Russia in 2010.

### Gross profit and gross margin

(thousands of dollars)	Year ended December 31	
	2011	2010
Trade sales	<b>301,014</b>	262,260
Cost of inventories (1)	<b>198,767</b>	160,581
Gross Margin	<b>102,247</b>	101,678
Gross Margin (1) (as a % of trade sales)	<b>34%</b>	39%
Gross Margin (2) (excluding 2010 acquisitions)	<b>37%</b>	39%

(1) Excluding depreciation and amortization included in cost of sales.

(2) Gross margin without taking into effect the divisions acquired in 2010 and 2011 so as to provide a comparison based only on the results of divisions that were operating in both periods.

The gross margin percentages at divisions owned for a full twelve months in both 2010 and 2011 were relatively consistent year over year, with the exception of Edwards/Twister, despite significant foreign exchange headwinds. Excluding acquisitions and Edwards/Twister, the

Company's gross margin was 41% in both 2010 and 2011. The Company was able to maintain these strong margins due to high throughput levels and continued investment in manufacturing through capital expenditures and lean manufacturing practices.

The Company's consolidated gross margin percentage decreased compared to 2010 due in part to the impact of foreign exchange and product sales mix. Also of significance were challenges experienced at the Company's Edwards/Twister and Mepu divisions:

- **Edwards/Twister** – Ag Growth embarked on an ambitious greenfield storage bin manufacturing project in 2010 and anticipated the new equipment it had purchased would be commissioned early in 2011. The equipment was not commissioned until June 2011 and as a result the Company had to commence production with limited time to prototype the new designs and to establish production processes and engineering support. As a result, the Company experienced production inefficiencies and incurred significant expenditures in order to properly service its customers. Entering 2012, management believes these start-up challenges are largely resolved.
- **Mepu** – Results at Finland-based Mepu in 2011 were significantly impacted by regional market challenges. A major drought in northern Europe in 2010 led to a very poor harvest, resulting in surplus inventory throughout the region as the Company entered 2011. In early 2011, the region experienced a significant spike in steel costs

which, due to the unusual competitive situation, Mepu was unable to pass through to customers. As a result, Mepu experienced significant margin compression and reported negative EBITDA in 2011. Gross margin and EBITDA at Mepu in 2012 are expected to increase compared to 2011 due to improved market conditions, largely the result of a favourable 2011 harvest, and improved steel cost alignment.

### General and administrative expenses

(thousands of dollars)	Year ended December 31	
	2011	2010
G&A (1)	49,392	43,460
G&A (as a % of trade sales)	16%	17%
G&A excluding acquisitions	38,723	41,222

(1) G&A excluding depreciation, amortization, transaction costs and accelerated vesting and death benefits.

G&A expenses increased compared to 2010 largely due to new acquisitions. As a percentage of trade sales, G&A was 16% in 2011 (2010 – 17%). Compared to 2010, G&A expenses net of acquisitions decreased \$2.5 million mainly due to lower stock-based compensation and short-term bonuses, which were partially offset by increased professional fees related the Company’s conversion to IFRS and a continued investment in international sales development.

Trade sales in 2011 benefited from continued strength in commercial grain handling, increased storage bin sales and revenues from acquisitions completed in 2010 and 2011.

### EBITDA and adjusted EBITDA

(thousands of dollars)	Year ended December 31	
	2011	2010
EBITDA (1)	56,038	66,200
Adjusted EBITDA (1)	53,274	59,730

(1) See the EBITDA reconciliation table above and “Non-IFRS Measures” later in this MD&A.

The decline in EBITDA and adjusted EBITDA in 2011 compared with a year earlier is largely due to the stronger Canadian dollar in 2011, start-up challenges at the Company’s new storage bin facility and the factors affecting Mepu, as discussed under “Explanation of Operating results”.

### Finance costs

The Company’s bank indebtedness as at December 31, 2011 was \$nil (2010 – \$nil) and its outstanding long-term debt and obligations under capital leases including the current portion was \$36.0 million (2010 – \$25.2 million). Long-term debt at December 31, 2011 is primarily

comprised of US \$25.0 million aggregate principal amount of non-amortizing secured notes that bear interest at 6.80% and mature October 29, 2016 and US \$10.5 million of non-amortizing term debt, net of all deferred financing costs of \$0.3 million. See “Capital Resources” for a description of the Company’s credit facilities.

Obligations under capital lease of \$0.2 million include a number of equipment leases with an average interest rate of 6.5%. The lease end dates are in 2012.

Finance costs for the year ended December 31, 2011 were \$12.7 million (2010 – \$12.5 million). At December 31, 2011 the Company had outstanding \$114.9 million aggregate principal amount of convertible unsecured subordinated debentures (2010 – \$115.0 million). The Debentures bear interest at an annual rate of 7.0% and mature December 31, 2014. See “Capital Resources”.

In addition to interest on the instruments noted above, finance costs include non-cash interest related to debenture accretion, the amortization of deferred finance costs, stand-by fees and other sundry cash interest.

### Finance income

Finance income is comprised of interest earned on the Company's cash balances and gains or losses on translation of the Company's U.S. dollar denominated long-term debt.

### Depreciation and amortization

Under IFRS the depreciation of property, plant and equipment and the amortization of intangible assets are categorized on the income statement in accordance with the function to which the underlying asset is related.

Depreciation (thousands of dollars)	Year ended December 31	
	2011	2010
Depreciation in cost of sales	4,933	2,927
Depreciation in G&A	485	385
Total depreciation	5,418	3,312

Amortization (thousands of dollars)	Year ended December 31	
	2011	2010
Amortization in cost of sales	503	450
Amortization in G&A	3,273	2,968
Total Amortization	3,776	3,418

Effective tax rate (thousands of dollars)	Year ended December 31	
	2011	2010
Current tax expense	3,910	5,627
Deferred tax expense	5,743	8,049
Total tax	9,653	13,676
Profit before taxes	34,176	44,437
Total tax %	28.2%	30.8%

### Current income tax expense

For the year ended December 31, 2011, the Company recorded current tax expense of \$3.9 million (2010 – \$5.6 million). Current tax expense relates primarily to certain subsidiary corporations of Ag Growth, including its U.S. and Finland based divisions.

### Deferred income tax expense

For the year ended December 31, 2011, the Company recorded deferred tax expense of \$5.7 million (2010 – \$8.0 million). The deferred tax expense in 2011 relates to the utilization of deferred tax assets plus a decrease in deferred tax liabilities that related to the application of corporate tax rates to reversals of temporary differences between the accounting and tax treatment of depreciable assets, intangibles, reserves, deferred compensation plans and deferred financing fees.

### Profit and profit per share

For the year ended December 31, 2011, the Company reported net profit of \$24.5 million (2010 – \$30.8 million), basic net profit per share of \$1.97 (2010 – \$2.43), and fully diluted net profit per share of \$1.95 (2010 – \$2.40). Profit per share for the year ended December 31, 2011 decreased compared to the prior year primarily due to lower adjusted EBITDA (see "Explanation of Operating Results") and a lower gain on foreign exchange.

# NOVEMBER 2007

Founded in 1852 and based in Decatur, Illinois, Union Iron was acquired in November 2007.

## Selected annual information

(thousands of dollars, other than per share data)

	Twelve months ended December 31		
	2011	2010	2009 (1)
Trade sales	301,014	262,260	237,294
EBITDA	56,038	66,200	60,680
Adjusted EBITDA	53,274	59,730	59,277
Net income	24,523	30,761	45,303
Earnings per share – basic	1.97	2.43	3.53
Earnings per share – fully diluted	1.95	2.40	3.45
Funds from operations	40,471	53,067	52,165
Payout ratio	75%	50%	51%
Dividends declared per share (2)			
Fund trust units	N/A	N/A	0.85
Class B units	N/A	N/A	0.85
Common shares	2.40	2.07	1.19
Total assets	394,566	398,385	387,850
Total long-term liabilities	151,986	139,831	174,024

(1) Results for 2010 have been restated in accordance with IFRS. The Company was not required to apply IFRS to periods prior to 2010 and accordingly 2009 comparative data is presented in accordance with CGAAP.

(2) Effective June 3, 2009, the Company converted from an open-ended limited purpose trust to a publicly listed corporation (see “Conversion to a Corporation”). Accordingly, Fund trust units and Class B units received distributions for the first five months of 2009, and common shareholders of the publicly listed corporation received dividends thereafter.

The following factors impact comparability between years in the table above:

- Sales, gain (loss) on foreign exchange, net earnings, and net earnings per share are significantly impacted by the rate of exchange between the Canadian and U.S. dollars.
- On June 3, 2009, the Company converted from an income trust to a corporation. In conjunction with the conversion transaction all Trust Units and Class B units of the Fund were exchanged for common shares of the corporation (see “Conversion to a Corporation”).
- Total assets and long-term liabilities were impacted by financing activities in 2009 as the Company issued \$115 million face value of convertible debentures, repaid its long-term debt, and issued new long-term debt.
- The inclusion of the assets, liabilities and operating results of the following acquisitions significantly impacts comparisons in the table above:
  - April 29, 2010 – Mepu
  - October 1, 2010 – Franklin
  - December 20, 2010 – Tramco
  - October 4, 2011 – Airlanco

**Quarterly financial information** (thousands of dollars)

**2011**

	<b>Average USD/CAD exchange rate</b>	<b>Sales</b>	<b>Profit</b>	<b>Basic profit per share</b>	<b>Diluted profit per share</b>
Q1	0.99	67,065	4,706	0.38	0.38
Q2	0.96	88,111	11,994	0.97	0.91
Q3	0.97	83,341	4,570	0.37	0.36
Q4	0.96	67,415	3,253	0.26	0.26
<b>Fiscal 2011</b>	0.97	305,932	24,523	1.97	1.95

**2010**

	<b>Average USD/CAD exchange rate</b>	<b>Sales</b>	<b>Profit (loss)</b>	<b>Basic profit (loss) per share</b>	<b>Diluted profit (loss) per share</b>
Q1	1.05	52,430	4,351	0.33	0.33
Q2	1.03	76,727	11,626	0.90	0.85
Q3	1.05	88,703	15,164	1.23	1.12
Q4	1.02	51,407	(380)	(0.03)	(0.03)
<b>Fiscal 2010</b>	1.04	269,267	30,761	2.43	2.40

Interim period sales and profit historically reflect seasonality. The third quarter is typically the strongest primarily due to the timing of construction of commercial projects and high in-season demand at the farm level. Due to the seasonality of Ag Growth's working capital movements, cash provided by operations will typically be highest in the fourth quarter.

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

- Sales, gain (loss) on foreign exchange, profit, and profit per share in all periods are significantly impacted by the rate of exchange between the Canadian and U.S. dollars.

- Sales, net profit and profit per share are significantly impacted by the acquisitions of Mepu (April 29, 2010), Franklin (October 1, 2010), Tramco (December 20, 2010) and Airlanco (October 2011).

**FOURTH QUARTER**

Sales and EBITDA in the fourth quarter of 2011 exceeded the record levels achieved in 2010, despite the negative impact of foreign exchange, due to strength in both portable and commercial grain handling sales.

**Acquisitions in 2010 and 2011**

In the fourth quarter narrative below the comparisons to 2010 most often include a comparison of consolidated results and a comparison that includes only the divisions that were owned for the full three month period in both 2010 and 2011. The "excluding acquisitions" comparison below excludes Tramco (acquired December 2010) and Airlanco (acquired October 2011).



### Trade sales

Trade sales for the three months ended December 31, 2011 were \$67.0 million (2010 – \$49.4 million). Excluding acquisitions, trade sales in the fourth quarter of 2011 were \$56.1 million, an increase of \$6.9 million or 14% over 2010. The increase in trade sales is largely due to increased demand for portable grain handling equipment, as the Company's dealer network replenished their inventory levels in advance of the 2012 season, higher domestic sales of commercial handling equipment and an increase in storage bin sales internationally.

### Gross margin

Gross margin as a percentage of sales for the three months ended December 31, 2011 was 33%, and excluding acquisitions the gross margin in the fourth quarter of 2011 was 36% (2010 – 35%). Gross margin percentages in the fourth quarter of 2011 benefited from sales mix, manufacturing efficiencies realized through the impact of lean manufacturing and the advantages of high production volumes, partially offset by the negative impact of the stronger Canadian dollar and quarter-over-quarter gross margin percentage decreases at the Edwards/Twister and Mepu divisions.

### Expenses

For the three months ended December 31, 2011, general and administrative expenses were \$13.6 million or 20% of sales. Excluding acquisitions, selling, general and administrative expenses were \$10.0 million or 20%

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Sales and EBITDA in the fourth quarter of 2011 exceeded the record levels achieved in 2010, despite the negative impact of foreign exchange, due to strength in both portable and commercial grain handling sales.

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of sales (2010 – \$10.4 million or 24%). The decrease of \$0.4 million from 2010 was primarily the result of a lower expense related to stock based compensation and a reduction in short term bonuses, partially offset by increased sales and marketing expenses as the Company continued to expand its international sales infrastructure. G&A expenses as a percentage of sales are typically high in the fourth quarter as the Company's trade sales are lower due to seasonality.

### Adjusted EBITDA, EBITDA and net earnings

Adjusted EBITDA for the three months ended December 31, 2011 was \$8.4 million (2010 – \$6.7 million). Excluding acquisitions, adjusted EBITDA in the fourth quarter of 2011 was \$8.2 million (2010 – \$6.5 million). The increase resulted primarily from higher sales of portable and commercial grain handling as discussed above.

EBITDA for the three months ended December 31, 2011 was \$9.7 million, compared to \$8.4 million in 2010. The increase in EBITDA is the result of the factors above partially offset by a decrease in the Company's gain on foreign exchange from \$2.9 million in 2010 to \$1.2 million in 2011.

For the three months ended December 31, 2011, the Company reported net earnings of \$3.3 million (2010 – loss of \$0.4 million), basic net earnings per share of \$0.26 (2010 – loss per share of \$0.03), and fully diluted net earnings per share of \$0.26 (2010 – loss per share of \$0.03).

## Cash flow and liquidity

(thousands of dollars)

	Year ended December 31	
	2011	2010
Profit before income taxes for the period	34,176	44,437
Add charges (deduct credits) to operations not requiring a current cash payment:		
Depreciation and amortization	9,194	6,731
Translation loss (gain) on foreign exchange	1,793	(1,022)
Non-cash interest expense	2,422	2,274
Stock based compensation	2,038	8,214
Loss on sale of assets	(76)	(263)
	49,547	60,371
Net change in non-cash working capital balances related to operations:		
Accounts receivable	(9,607)	(9,664)
Inventory	(9,850)	(1,321)
Prepaid expenses and other assets	5,034	(5,248)
Accounts payable and accruals	(1,755)	2,046
Customer deposits	1,445	(2,868)
Provisions	280	748
	(14,453)	(16,307)
Settlement of SAIP obligation	(1,998)	0
Income tax paid	(5,217)	(5,063)
Cash provided by operations	27,879	39,001

# JANUARY 2008

Established in 1955, Applegate was acquired by AGI in January of 2008.

For the year ended December 31, 2011, cash provided by operations was \$27.9 million (2010 – \$39.0 million). The decrease in cash generated from operations compared to 2010 is the result of a decrease in EBITDA and net earnings which resulted primarily from the impact of foreign exchange and challenges at the company's Edwards/Twister and Mepu divisions (see "Explanation of Operating Results" above).

### **Working Capital Requirements**

Interim period working capital requirements typically reflect the seasonality of the business. Ag Growth's collections of accounts receivable are weighted towards the third and fourth quarters. This collection pattern, combined with historically higher sales in the third quarter that result from seasonality, typically lead to accounts receivable levels increasing throughout the year and peaking in the third quarter. Inventory levels typically increase in the first and second quarters and then begin to decline in the third or fourth quarter as sales levels exceed production. As a result of these working capital movements, historically, Ag Growth begins to draw on its operating lines in the first or second quarter. The operating line balance typically peaks in the second or third quarter and normally begins to decline later in the third quarter as collections of accounts receivable increase. Ag Growth has typically fully repaid its operating line balance by early in the fourth quarter.

Working capital requirements in 2012 are expected to be generally consistent with historical patterns, however growth in the Company's storage bin sales and increasing international sales with extended payment terms may result in higher than historical inventory levels and an

increase in the number of days accounts receivable remain outstanding. In addition, payment terms related to certain preseason ordering programs have changed compared to prior years which is expected to result in higher levels of accounts receivable in the first two quarters of 2012.

### **Capital Expenditures**

Ag Growth had maintenance capital expenditures of \$3.9 million in the year ended December 31, 2011 (2010 – \$3.3 million), representing 1.3% of trade sales (2010 – 1.3%). Maintenance capital expenditures in 2011 relate primarily to purchases of manufacturing equipment, trucks, trailers, and forklifts and were funded through cash on hand, cash from operations and bank indebtedness.

Ag Growth defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels.

Non-maintenance capital expenditures encompass other investments, including cash outlays required to increase operating capacity or improve operating efficiency.

Ag Growth had non-maintenance capital expenditures in the year ended December 31, 2011 of \$5.3 million (2010 – \$21.7 million). As expected, non-maintenance capital expenditures in 2011 have decreased significantly from 2010 largely due to the significant investment in 2010 related to the Company's greenfield storage bin facility. Non-maintenance capital expenditures in 2011 were financed through cash on hand, cash from operations and bank indebtedness.

The following capital expenditures were classified as non-maintenance in 2011:

- Grain storage bin capacity – in 2010 the Company invested \$15.9 million towards a grain storage bin manufacturing facility and automated storage bin production equipment. The investment is expected to allow the Company to capitalize on international sales opportunities and to increase sales in North America. In the year ended December 31, 2011, the Company invested \$3.4 million to complete the project. No additional significant expenditures are anticipated.
- Manufacturing equipment – \$1.3 million was invested to upgrade certain equipment to allow for increased capacity and operating efficiency.
- Union Iron – \$0.6 million was invested to upgrade the paint line and shipping/receiving area to provide for increased capacity and improved manufacturing efficiencies.

Capital expenditures in 2012 are expected to decrease modestly compared to 2011 and are expected to be financed through a combination of cash on hand, bank indebtedness and term debt.

### **Cash Balance**

The Company's cash balance in 2011 decreased \$28 million (2010 – \$74 million) as growth in working capital and payments related to acquisitions offset cash generated from operations net of dividend payments and capital expenditures. The decrease was more significant in 2010 due to higher capital expenditures, primarily due to the greenfield bin plant in Alberta, and outlays related to the Company's normal course issuer bid.

## Contractual obligations (thousands of dollars)

	Total	2012	2013	2014	2015	2016+
Debentures	114,885	0	0	114,885	0	0
Long-term debt	36,134	0	0	10,709	0	25,425
Capital leases	131	131	0	0	0	0
Operating leases	2,514	657	533	513	468	343
Total obligations	153,664	788	533	126,107	468	25,768

Debentures relate to the aggregate principal amount of debentures issued by the Company in October 2009 (see “Convertible Debentures” below). Long-term debt at December 31, 2011 is comprised of US \$25.0 million aggregate principal amount of secured notes issued through a note purchase and private shelf agreement and US \$10.5 million non-amortizing term debt, net of deferred financing costs. Capital lease obligations relate to a number of leases for equipment. The operating leases relate primarily to vehicle, equipment, warehousing, and facility leases and were entered into in the normal course of business.

As at March 14, 2012, the Company had outstanding commitments of \$1.5 million in relation to capital expenditures for property, plant and equipment.

## CAPITAL RESOURCES

### Cash

The Company had a cash balance of \$6.8 million as at December 31, 2011 (2010 – \$35.0 million). The Company's cash balance at December 31, 2010 was higher than is typical because it included a portion of the net proceeds received from an October 2009 debenture offering (see

“Convertible Debentures”). The remainder of the debenture proceeds was deployed in fiscal 2011.

### Long-term debt

On October 29, 2009, the Company authorized the issue and sale of US \$25.0 million aggregate principal amount of secured notes through a note purchase and private shelf agreement. The notes are non-amortizing and bear interest at 6.80% and mature October 29, 2016. The note purchase agreement also provides for a possible future issuance and sale of notes of up to an additional US \$75.0 million aggregate principal amount, with maturity dates no longer than ten years from the date of issuance. Under the note purchased agreement, Ag Growth is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio. The Company is in compliance with all financial covenants.

On October 29, 2009, the Company also entered a credit facility with three Canadian chartered banks that includes CAD \$10.0 million and US \$2.0 million available for working capital purposes, and provides for non-amortizing long-term debt of up to CAD \$38.0 million and US \$20.5 million. As at December 31, 2011, US \$10.5 million

was drawn under this facility (2010 – \$nil). The facilities bear interest at rates of prime plus 0.50 % to prime plus 1.50% based on performance calculations and were to mature on October 29, 2012.

Subsequent to December 31, 2011, the Company renewed its credit facility on substantially the same terms with its existing lenders. The renewed credit includes lender approval to expand the facility by an additional \$25 million, bears interest at rates of prime plus 0.0% to prime plus 1.0% based on performance calculations and matures on the earlier of March 8, 2016 or three months prior to maturity date of the Debentures, unless refinanced on terms acceptable to the lenders. Ag Growth is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio, and is in compliance with all financial covenants.

### Obligation under capital leases

Upon the acquisition of Franklin the Company assumed a number of capital leases for manufacturing equipment. The leases bear interest at rates averaging 6.5% and mature in 2012. The Company expects to exercise the buyout option upon maturity of the equipment leases.

### Convertible debentures

In October 2009 the Company issued \$115 million aggregate principal amount of convertible unsecured subordinated debentures (the “Debentures”) at a price of \$1,000 per Debenture. The Debentures bear interest at an annual rate of 7.0% payable semi-annually on June 30 and December 31. Each Debenture is convertible into common shares of the Company at the option of the holder at a conversion price of \$44.98 per common share. The maturity date of the Debentures is December 31, 2014.

Net proceeds of the offering of approximately \$109.9 million were used by Ag Growth for general corporate purposes and to repay existing indebtedness of approximately US \$37.6 million and CAD \$11.9 million under the Company’s credit facility. In 2010, the Company used proceeds from the Debentures to fund the acquisitions of Mepu, Franklin and Tramco (see “Acquisitions in Fiscal 2010”) and to finance the expansion of the Company’s storage bin product line (see “Capital Expenditures”).

The Debentures are not redeemable before December 31, 2012. On and after December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares during the

20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price.

On and after December 31, 2013, the Debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

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

The Debentures trade on the TSX under the symbol AFN.DB.

### COMMON SHARES

The following common shares were issued and outstanding during the periods indicated:

	<b># Common Shares</b>
December 31, 2009	13,078,040
Normal course issuer bid	(674,600)
Share award incentive plan issuance	140,000
December 31, 2010	12,543,440
Conversion of Debentures	2,556
December 31, 2011 and March 14, 2012	12,545,996

On November 17, 2011, Ag Growth commenced a normal course issuer bid for up to 994,508 common shares, representing 10% of the Company’s public float at that time. In the year ended December 31, 2011, no common shares were purchased under the normal course issuer bid.

On December 10, 2009, Ag Growth commenced a normal course issuer bid for up to 1,272,423 common shares, representing 10% of the Company’s public float at that time. In the year ended December 31, 2010, the Company purchased 674,600 common shares for \$23.4 million under the normal course issuer bid. The normal course issuer bid was terminated on December 9, 2010.

In the year ended December 31, 2011, 2,556 common shares were issued on conversion of \$115,000 principal amount of Debentures. Ag Growth has reserved 2,554,136 common shares for issuance upon conversion of the Debentures as at December 31, 2011.

Ag Growth has granted 220,000 share awards under its share award incentive plan. In fiscal 2010 a total of 140,000 share awards vested and the equivalent number of common shares was issued to the participants. In 2011 an additional 40,000 share awards vested however no common shares were issued as the participants were compensated in cash rather than common shares. As at December 31, 2011, a total of 40,000 share awards were outstanding. These vested on January 1, 2012, however no common shares were issued as the participants were compensated in cash rather than common shares.

The administrator of the LTIP has acquired 317,304 common shares to satisfy its obligations with respect to awards under the LTIP for fiscal 2007, 2008, 2009 and 2010. These common shares are held by the administrator until such time as they vest to the LTIP participants. As at December 31, 2011, a total of 182,928 common shares related to the LTIP had vested to the participants.

A total of 23,144 deferred grants of common shares are outstanding under the Company's Director's Deferred Compensation Plan.

Ag Growth's common shares trade on the TSX under the symbol AFN.

## DIVIDENDS

In the year ended December 31, 2011, Ag Growth declared dividends to shareholders of \$30.1 million (2010 – \$26.9 million). Ag Growth increased its monthly dividend rate from \$0.17 per common share to \$0.20 per common share in November 2010. Ag Growth's policy is to pay

In the year ended December 31, 2011, Ag Growth declared dividends of \$2.40 per common share (2010 – \$2.07).

monthly dividends. The Company's Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be in the best interest of the Company.

Dividends in a fiscal year are typically funded entirely through cash from operations, although due to seasonality dividends may be funded on a short-term basis by the Company's operating lines. Dividends in year ended December 31, 2011 were funded through cash on hand, cash from operations and bank indebtedness. The Company expects dividends in 2012 will be funded through bank indebtedness and cash from operations.

## FUNDS FROM OPERATIONS

Funds from operations, defined under "Non-IFRS Measures" is cash flow from operating activities before the net change in non-cash working capital balances related to operations and stock-based compensation, less maintenance capital expenditures and adjusted for the gain or loss on the sale of property, plant & equipment. The objective of presenting this measure is to provide a measure of free cash flow. The definition excludes

changes in working capital as they are necessary to drive organic growth and have historically been financed by the Company's operating facility (See "Capital Resources"). Funds from operations should not be construed as an alternative to cash flows from operating, investing, and financing activities as a measure of the Company's liquidity and cash flows.

(thousands of dollars)	Year ended December 31	
	2011	2010
EBITDA	56,038	66,200
Stock based compensation	2,038	6,511
Non-cash interest expense	2,422	2,274
Translation loss (gain) on foreign exchange	1,793	(1,022)
Interest expense	(12,668)	(12,484)
Income taxes paid	(5,217)	(5,063)
Maintenance capital expenditures	(3,935)	(3,349)
Funds from operations (1)	40,471	53,067

Funds from operations can be reconciled to cash provided by operating activities as follows:

(thousands of dollars)	Year ended December 31	
	2011	2010
Cash provided by operating activities	27,879	39,001
Change in non-cash working capital	14,453	16,307
Settlement of SAIP option	1,998	0
Cash portion of death benefits (3)	0	845
Maintenance capital expenditures	(3,935)	(3,349)
Loss on sale of assets	76	263
Funds from operations (1)	40,471	53,067
Shares outstanding (2)	12,562,335	12,828,372
Funds from operations per share	3.22	4.14
Dividends declared per share	2.40	2.07
Payout ratio (1)	75%	50%

(1) See "Non-IFRS Measures".

(2) Fully diluted weighted average, excluding the potential dilution of the Debentures as the calculation includes the interest expense related to the Debentures.

(3) Accelerated vesting and death benefits expense of \$2,549 has been excluded from EBITDA in 2010. The non-cash portion of this expense was \$1,704.

## FINANCIAL INSTRUMENTS

### Foreign exchange contracts

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollar. Ag Growth has entered into foreign exchange

Forward Foreign Exchange Contracts			
Settlement Dates	Face Amount USD (000s)	Average Rate CAD	CAD Amount (000s)
Jan – Dec 2012	\$60,000	\$0.9905	\$59,430

The fair value of the outstanding forward foreign exchange contracts in place as at December 31, 2011 was a loss of \$1.8 million. Consistent with prior periods, the Company has elected to apply hedge accounting for these contracts and the unrealized loss has been recognized in other comprehensive income for the period ended December 31, 2011.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. By their nature, these estimates are subject to a degree of uncertainty and are based on historical experience and trends in the industry. Management reviews these estimates on an ongoing basis. While management has applied judgment based on assumptions believed to be reasonable in the circumstances, actual

contracts with three Canadian chartered banks to partially hedge its foreign currency exposure on anticipated U.S. dollar sales transactions and as at December 31, 2011, had outstanding the following foreign exchange contracts:

results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

Ag Growth believes the accounting policies that are critical to its business relate to the use of estimates regarding the recoverability of accounts receivable and the valuation of inventory, intangibles, goodwill, convertible debentures and deferred income taxes. Ag Growth's accounting policies are described in the notes to its December 31, 2011 audited financial statements.

### Allowance for doubtful accounts

Due to the nature of Ag Growth's business and the credit terms it provides to its customers, estimates and judgments are inherent in the on-going assessment of the recoverability of accounts receivable. Ag Growth maintains an allowance for doubtful accounts to reflect expected credit losses. A considerable amount of judgment is required to assess the ultimate realization of accounts receivable and these judgments must be

continuously evaluated and updated. Ag Growth is not able to predict changes in the financial conditions of its customers, and the Company's judgment related to the recoverability of accounts receivable may be materially impacted if the financial condition of the Company's customers deteriorates.

### **Valuation of inventory**

Assessments and judgments are inherent in the determination of the net realizable value of inventories. The cost of inventories may not be fully recoverable if they are slow moving, damaged, obsolete, or if the selling price of the inventory is less than its cost. Ag Growth regularly reviews its inventory quantities and reduces the cost attributed to inventory no longer deemed to be fully recoverable. Judgment related to the determination of net realizable value may be impacted by a number of factors including market conditions.

### **Goodwill and intangible assets**

Assessments and judgments are inherent in the determination of the fair value of goodwill and intangible assets. Goodwill and indefinite life intangible assets are recorded at cost and finite life intangibles are recorded at cost less accumulated amortization. Goodwill and intangible assets are tested for impairment at least

annually. Assessing goodwill and intangible assets for impairment requires considerable judgment and is based in part on current expectations regarding future performance. Changes in circumstances including market conditions may materially impact the assessment of the fair value of goodwill and intangible assets.

### **Deferred income taxes**

Deferred income taxes are calculated based on assumptions related to the future interpretation of tax legislation, future income tax rates, and future operating results, acquisitions and dispositions of assets and liabilities. Ag Growth periodically reviews and adjusts its estimates and assumptions of income tax assets and liabilities as circumstances warrant. A significant change in any of the Company's assumptions could materially affect Ag Growth's estimate of deferred tax assets and liabilities.

### **Future benefit of tax-loss carryforwards**

Ag Growth should only recognize the future benefit of tax-loss carryforwards where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. We are required to make significant estimates and assumptions regarding future revenues and profit, and our ability to implement certain tax planning strategies, in order to assess the

likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to significant uncertainty and if changed could materially affect our assessment of the ability to fully realize the benefit of the deferred income tax assets. Deferred tax asset balances would be reduced and additional income tax expense recorded in the applicable accounting period in the event that circumstances change and we, based on revised estimates and assumptions, determined that it was no longer probable that those deferred tax assets would be fully realized.

### **RISKS AND UNCERTAINTIES**

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial also may impair operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for dividends could be materially adversely affected.

#### **Industry cyclicality and general economic conditions**

The performance of the agricultural industry is cyclical. To the extent that the agricultural sector declines or

**APRIL 2010**

Acquired in April 2010, Mepu is based in Ylane, Finland and was established in 1952.

experiences a downturn, this is likely to have a negative impact on the grain handling, storage and conditioning industry, and the business of Ag Growth. Among other things, the agricultural sector has benefited from the expansion of the ethanol industry, and to the extent the ethanol industry declines or experiences a downturn, this is likely to have a negative impact on the grain handling, storage and conditioning industry, and the business of Ag Growth.

Future developments in the domestic and global economies may negatively impact the demand for our products. Management cannot estimate the level of growth or contraction of the economy as a whole or of the economy of any particular region or market that we serve. Adverse changes in our financial condition and results of operations may occur as a result of negative economic conditions, declines in stock markets, contraction of credit availability or other factors affecting economic conditions generally.

#### **Risk of decreased crop yields**

Decreased crop yields due to poor weather conditions and other factors are a significant risk affecting Ag Growth. Both reduced crop volumes and the accompanying decline in farm incomes can negatively affect demand for grain handling, storage and conditioning equipment.

#### **Potential volatility of production costs**

Various materials and components are purchased in connection with Ag Growth's manufacturing process, some or all of which may be subject to wide price variation. Consistent with past and current practices within the industry, Ag Growth seeks to manage its exposure to

material and component price volatility by planning and negotiating significant purchases on an annual basis, and endeavours to pass through to customers, most, if not all, of the price volatility. There can be no assurance that industry dynamics will allow Ag Growth to continue to reduce its exposure to volatility of production costs by passing through price increases to its customers.

#### **Foreign exchange risk**

Ag Growth generates the majority of its sales in U.S. dollars, but a materially smaller proportion of its expenses are denominated in U.S. dollars. In addition, Ag Growth may denominate its long-term borrowings in U.S. dollars. Accordingly, fluctuations in the rate of exchange between the Canadian dollar and the U.S. dollar may significantly impact the Company's financial results. Management has implemented a foreign currency hedging strategy and the Company has entered into a series of hedging arrangements to partially mitigate the potential effect of fluctuating exchange rates. To the extent that Ag Growth does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the U.S. dollar may have a material adverse effect on Ag Growth's results of operations, business, prospects and financial condition.

#### **Acquisition and expansion risk**

Ag Growth may expand its operations by increasing the scope or changing the nature of operations at existing facilities or by acquiring or developing additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire, develop or profitably manage additional

businesses, or successfully integrate any acquired business, products, or technologies into the business, or increase the scope or change the nature of operations at existing facilities without substantial expenses, delays or other operational or financial difficulties. The Company's ability to increase the scope or change the nature of its operations or acquire or develop additional businesses may be impacted by its cost of capital and access to credit. Acquisitions and expansions may involve a number of special risks including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, and legal liabilities, some or all of which could have a material adverse effect on Ag Growth's performance. In addition, there can be no assurance that an increase in the scope or a change in the nature of operations at existing facilities or that acquired or newly developed businesses, products, or technologies will achieve anticipated revenues and income. The failure of the Company to manage its acquisition or expansion strategy successfully could have a material adverse effect on Ag Growth's results of operations and financial condition.

#### **International sales and operations**

A portion of Ag Growth's sales are generated in overseas markets and Ag Growth anticipates increasing its offshore sales and operations in the future. Sales and operations outside of North America, particularly in emerging markets, are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; competition with domestic and international manufacturers and suppliers; exchange controls; national and regional labour strikes; political risks and risks of

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A portion of Ag Growth's sales are generated in overseas markets and Ag Growth anticipates increasing its offshore sales and operations in the future.

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increases in duties; taxes and changes in tax laws; expropriation of property, cancellation or modification of contract rights, unfavourable legal climate for the collection of unpaid accounts; changes in laws and policies governing operations of foreign-based companies, as well as risks of loss due to civil strife and acts of war. There is no guarantee that one or more of these factors will not materially adversely affect Ag Growth's offshore sales and operations in the future.

#### **Commodity prices, international trade and political uncertainty**

Prices of commodities are influenced by a variety of unpredictable factors that are beyond the control of Ag Growth, including weather, government (Canadian, United States and other) farm programs and policies, and changes in global demand or other economic factors. A decrease in commodity prices could negatively impact the agricultural sector, and the business of Ag Growth. New legislation or amendments to existing legislation, including the Energy Independence and Security Act in the U.S., may ultimately impact demand for the Company's products.

The world grain market is subject to numerous risks and uncertainties, including risks and uncertainties related to international trade and global political conditions.

#### **Competition**

Ag Growth experiences competition in the markets in which it operates. Certain of Ag Growth's competitors have greater financial and capital resources than Ag Growth. Ag Growth could face increased competition from newly formed or emerging entities, as well as from established entities that choose to focus (or increase their existing focus) on Ag Growth's primary markets. As the grain handling, storage and conditioning equipment sector is fragmented, there is also a risk that a larger, formidable competitor may be created through a combination of one or more smaller competitors. Ag Growth may also face potential competition from the emergence of new products or technology.

#### **Seasonality of business**

The seasonality of the demand for Ag Growth's products results in lower cash flow in the first three quarters of each

calendar year and may impact the ability of the Company to make cash dividends to shareholders, or the quantum of such dividends, if any. No assurance can be given that Ag Growth's credit facility will be sufficient to offset the seasonal variations in Ag Growth's cash flow.

#### **Business interruption**

The operation of Ag Growth's manufacturing facilities are subject to a number of business interruption risks, including delays in obtaining production materials, plant shutdowns, labour disruptions and weather conditions/natural disasters. Ag Growth may suffer damages associated with such events that it cannot insure against or which it may elect not to insure against because of high premium costs or other reasons. For instance, Ag Growth's Rosenort facility is located in an area that is often subject to widespread flooding, and insurance coverage for this type of business interruption is limited. Ag Growth is not able to predict the occurrence of business interruptions.

#### **Litigation**

In the ordinary course of its business, Ag Growth may be party to various legal actions, the outcome of which cannot be predicted with certainty. One category of potential legal actions is product liability claims. Farming is an inherently dangerous occupation. Grain handling, storage and conditioning equipment used on farms or in commercial applications may result in product liability claims that require insuring of risk and management of the legal process.

#### **Dependence on key personnel**

Ag Growth's future business, financial condition, and



operating results depend on the continued contributions of certain of Ag Growth's executive officers and other key management and personnel, certain of whom would be difficult to replace.

### **Labour costs and shortages and labour relations**

The success of Ag Growth's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Ag Growth to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on the Company's results of operations. There is no assurance that some or all of the employees of Ag Growth will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse effect on Ag Growth's results of operations.

### **Distribution, sales representative and supply contracts**

Ag Growth typically does not enter into written agreements with its dealers, distributors or suppliers. As a result, such parties may, without notice or penalty, terminate their relationship with Ag Growth at any time. In addition, even if such parties should decide to continue their relationship with Ag Growth, there can be no guarantee that the consideration or other terms of such contracts will continue on the same basis.

### **Availability of credit**

Ag Growth's credit facility matures on the earlier of March 8, 2016 or three months prior to the maturity of the

Debentures and is renewable at the option of the lenders. There can be no guarantee the Company will be able to obtain alternate financing and no guarantee that future credit facilities will have the same terms and conditions as the existing facility. This may have an adverse effect on the Company, its ability to pay dividends and the market value of its common shares. In addition, the business of the Company may be adversely impacted in the event that the Company's customer base does not have access to sufficient financing. Sales related to the construction of commercial grain handling facilities, sales to developing markets, and sales to North American farmers may be negatively impacted.

### **Interest rates**

Ag Growth's term and operating credit facilities bear interest at rates that are in part dependent on performance based financial ratios. The Company's cost of borrowing may be impacted to the extent that the ratio calculation results in an increase in the performance based component of the interest rate. To the extent that the Company has term and operating loans where the fluctuations in the cost of borrowing are not mitigated by interest rate swaps, the Company's cost of borrowing may be impacted by fluctuations in market interest rates.

### **Uninsured and underinsured losses**

Ag Growth uses its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets and operations at a commercially reasonable cost and on suitable terms. This may result in insurance

coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets or cover the cost of a particular claim.

### **Cash dividends are not guaranteed**

Future dividend payments by Ag Growth and the level thereof is uncertain, as Ag Growth's dividend policy and the funds available for the payment of dividends from time to time are dependent upon, among other things, operating cash flow generated by Ag Growth and its subsidiaries, financial requirements for Ag Growth's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond Ag Growth's control.

### **Income tax matters**

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of federal and provincial income tax rules and regulations, and judgments as to their interpretation and application to Ag Growth's specific situation. The amount and timing of reversals of temporary differences will also depend on Ag Growth's future operating results, acquisitions and dispositions of assets and liabilities. The business and operations of Ag Growth are complex and Ag Growth has executed a number of significant financings, acquisitions, reorganizations and business combinations over the course of its history including the Conversion. The computation of income taxes payable as a result of these transactions

involves many complex factors as well as Ag Growth's interpretation of and compliance with relevant tax legislation and regulations. While Ag Growth believes that its existing and proposed tax filing positions are probable to be sustained, there are a number of existing and proposed tax filing positions including in respect of the Conversion that are or may be the subject of review by taxation authorities. Therefore, it is possible that additional taxes could be payable by Ag Growth and the ultimate value of Ag Growth's income tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on Ag Growth's consolidated financial statements and financial position.

#### **Ag Growth may issue additional common shares diluting existing shareholders' interests**

The Company is authorized to issue an unlimited number of common shares for such consideration and on such terms and conditions as shall be established by the Directors without the approval of any shareholders, except as required by the TSX. In addition, the Company may, at its option, satisfy its obligations with respect to the interest payable on the Debentures and the repayment of the face value of the Debentures through the issuance of common shares.

#### **Leverage, restrictive covenants**

The degree to which Ag Growth is leveraged could have important consequences to the shareholders, including: (i) the ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of Ag Growth's cash flow from

operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay dividends; (iii) certain of the borrowings under the Company's credit facility may be at variable rates of interest, which exposes Ag Growth to the risk of increased interest rates; and (iv) Ag Growth may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. Ag Growth's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The ability of Ag Growth to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing its indebtedness, including the Company's credit facility and note purchase agreement. Ag Growth's credit facility and note purchase agreement contain restrictive covenants customary for agreements of this nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Ag Growth to incur additional indebtedness, to pay dividends or make certain other payments and to sell or otherwise dispose of material assets. In addition, the credit facility and note purchase agreement contain a number of financial covenants that will require Ag Growth to meet certain financial ratios and financial tests. A failure

to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and trigger financial penalties including a make-whole provision in the note purchase agreement. If the indebtedness under the credit facility and note purchase agreement were to be accelerated, there can be no assurance that the assets of Ag Growth would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facility or any other credit facility will be able to be refinanced.

#### **RECENT ACCOUNTING CHANGES**

For all periods up to and including the year ended December 31, 2010, Ag Growth presented its consolidated financial statements in accordance with previous Canadian generally accepted accounting principles ("CGAAP"). The Company's financial statements for the quarterly reporting periods beginning March 31, 2011 and the year ending December 31, 2011, and this MD&A, have been prepared in accordance with IFRS.

#### **Transition to IFRS**

For the majority of accounting policy choices, the Company did not change the accounting policies it applied under CGAAP if it was not required to do so under IFRS. In preparing its consolidated financial statements in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the Company availed itself of certain of the optional exemptions from full retrospective application of IFRS. A comprehensive summary of the optional exemptions



applied by the Company is included in Note 33 in the Company's December 31, 2011 audited consolidated financial statements.

The transition to IFRS did result in a number of changes to the Company's Statements of Financial Position as at January 1, 2010, its IFRS transition date, and to its Statements of Income, Comprehensive Income, Cash Flows and Equity for its 2010 reporting periods. A comprehensive summary of all of the significant changes including the various reconciliations of CGAAP financial statements to those prepared under IFRS is included in Note 33 in the Company's December 31, 2011 audited financial statements. Although the adoption of IFRS resulted in adjustments to the Company's financial statements, it did not materially impact the underlying cash flows or profitability trends of the Company.

### INCOME STATEMENT PRESENTATION

The Company has elected to categorize its income and expenses by their function which is one of the two alternatives available under IFRS. Under this methodology revenues and expenses are categorized according to their underlying activity or asset. Accordingly, amortization and foreign-exchange gains (losses), which were previously disclosed separately under CGAAP, have now been allocated to sales, cost of sales or general and administrative expenses. Presentation differences under IFRS, compared to the Company's income statement presentation under CGAAP, include the following:

<b>Sales</b>	<b>Year ended December 31, 2010</b>
	\$
Trade sales per CGAAP	262,077
Reclassify – gain on foreign exchange	7,007
Adoption of IFRS – revenue recognition	183
Sales per IFRS	269,267
<b>Cost of sales</b>	<b>Year ended December 31, 2010</b>
	\$
Cost of sales per CGAAP	160,504
Adoption of IFRS – inventory overhead	(8)
Adoption of IFRS – revenue recognition	85
Reclassify – depreciation and amortization	3,377
Cost of sales per IFRS	163,958
<b>General and administrative expenses</b>	<b>Year ended December 31, 2010</b>
	\$
General and administrative per CGAAP	\$35,505
Reclassify – stock based compensation	6,394
Reclassify – research and development	1,444
Reclassify – accelerated vesting and death benefits	2,549
Adoption of IFRS – acquisition costs	1,696
Adoption of IFRS – other	117
Reclassify – depreciation and amortization	3,353
Total general and administrative	\$51,058

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **Presentation of financial statements (amendments to IAS 1)**

On June 16, 2011, the International Accounting Standards Board's ("IASB") issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments enhance the presentation of other comprehensive income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after January 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

### **Financial instruments: classification and measurement ("IFRS 9")**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of the existing standard for financial instruments ("IAS 39") and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of hedge accounting. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of Ag Growth's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### **Employee benefits ("IAS 19")**

On June 16, 2011, the IASB revised IAS 19, *Employee*

*Benefits*. The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

### **Offsetting financial assets and liabilities**

In December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation*. The amendments are intended to clarify certain aspects of the existing guidance on offsetting financial assets and financial liabilities due to the diversity in application of the requirements on offsetting. The IASB also amended IFRS 7 to require information about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2012. However, the new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendments need to be provided retrospectively to all comparative periods. The Company is currently assessing the impact of adopting these amendments on the consolidated financial statements.

### **IFRS 10 Consolidated financial statements**

IFRS 10 replaces the portion of IAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation – Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IFRS 10 establishes a single control model that applies to all entities (including "special purpose entities" or "structured entity" as they are now referred to in the new standards, or "variable interest entities" as they are referred to in US GAAP). The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements of IAS 27. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities.

IFRS 10 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, if any.

### **IFRS 11 Joint arrangements**

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 uses some of the terms that were used by IAS 31, but with different meanings.

Whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement that exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (“JCEs”) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, IAS 31 focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, if any.

### **IFRS 12 Disclosure of interests in other entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28, *Investment in Associates*. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity.

IFRS 12 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, which will be limited to disclosure requirements for the financial statements.

### **IFRS 13 Fair value measurement**

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges.

IFRS 13 is effective for annual periods commencing on or after January 1, 2013 and will be applied prospectively. The Company is currently in the process of evaluating the implications of this new standard.

### **Deferred tax: recovery of underlying assets (amendments to IAS 12)**

On December 20, 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets* (amendments to IAS 12) concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IAS 12, *Income Taxes* for non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40, *Investment Property*. IAS 12 has been updated to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and
- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. This amendment is not expected to have an impact on the Company.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

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

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

The Company acquired the assets of Airlanco in fiscal 2011 (see "Acquisitions"). Management has not completed its review of internal controls over financial reporting or disclosure controls and procedures for this newly acquired operation. Since the acquisition occurred within 365 days of the end of the reporting period, management has limited the scope of design, and subsequent evaluation, of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of this acquisition, as permitted under Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings. For the period covered by this MD&A, management has undertaken specific procedures to satisfy itself with respect to the

accuracy and completeness of the acquired operations' financial information. The following is the summary financial information pertaining to the acquisition that was included in Ag Growth's consolidated financial statements for the twelve months ended December 31, 2011:

(thousands of dollars)	Airlanco (1)
Revenue	2,701
Profit (loss)	(92)
Current assets (2)	3,125
Non-current assets (2)	9,353
Current liabilities (2)	1,039
Non-current liabilities (2)	0

(1) Results from October 4, 2011 to December 31, 2011

(2) Balance sheets as at December 31, 2011

There have been no material changes in Ag Growth's internal controls over financial reporting that occurred in the three month period ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## NON-IFRS MEASURES

In analyzing our results, we supplement our use of financial measures that are calculated and presented in accordance with IFRS, with a number of non-IFRS financial measures including "EBITDA", "Adjusted EBITDA", "gross margin", "funds from operations", "payout ratio" and "trade sales". A non-IFRS financial measure is a numerical measure of a company's historical performance, financial position or cash flow that excludes (includes) amounts, or is

subject to adjustments that have the effect of excluding (including) amounts, that are included (excluded) in most directly comparable measures calculated and presented in accordance with IFRS. Non-IFRS financial measures are not standardized; therefore, it may not be possible to compare these financial measures with other companies' non-IFRS financial measures having the same or similar businesses. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

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

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

Management believes that the Company's financial results may provide a more complete understanding of factors and trends affecting our business and be more meaningful

to management, investors, analysts and other interested parties when certain aspects of our financial results are adjusted for the gain (loss) on foreign exchange and other operating expenses and income. This measurement is a non-IFRS measurement. Management uses the non-IFRS adjusted financial results and non-IFRS financial measures to measure and evaluate the performance of the business and when discussing results with the Board of Directors, analysts, investors, banks and other interested parties.

References to “EBITDA” are to profit before income taxes, finance costs, accelerated vesting and death benefits, amortization and depreciation. References to “adjusted EBITDA” are to EBITDA before the gain (loss) on foreign exchange, gains or losses on the sale of property, plant and equipment, expenses related to corporate acquisition activity and other operating expenses. Management believes that, in addition to profit or loss, EBITDA and adjusted EBITDA are useful supplemental measures in evaluating the Company’s performance. Management cautions investors that EBITDA and adjusted EBITDA should not replace profit or loss as indicators of performance, or cash flows from operating, investing, and financing activities as a measure of the Company’s liquidity and cash flows.

References to “trade sales” are to sales net of the gain or loss on foreign exchange. References to “gross margin” are to trade sales less cost of sales net of the depreciation and amortization included in cost of sales. Management cautions investors that trade sales should not replace sales as an indicator of performance.

References to “funds from operations” are to cash flow from operating activities before the net change in non-cash working capital balances related to operations, stock-based compensation and the non-cash portion of accelerated vesting and death benefits, less maintenance capital expenditures and adjusted for the gain or loss on the sale of property, plant & equipment. Management believes that, in addition to cash provided by (used in) operating activities, funds from operations provide a useful supplemental measure in evaluating its performance.

References to “payout ratio” are to dividends declared as a percentage of funds from operations.

#### **FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking statements that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. Forward-looking statements may contain such words as “anticipate”, “believe”, “continue”, “could”, “expects”, “intend”, “plans”, “will” or similar expressions suggesting future conditions or events. In particular, the forward looking statements in this MD&A include statements relating to the benefits of the acquisitions of Mepu, Franklin, Tramco and Airlanco (see “Acquisitions”), our business and strategy, including our outlook for our financial and operating performance, growth in sales to developing markets, the benefits of the expansion of the Company’s grain storage product line including the anticipated resolution of start up issues at our Twister bin plant and the future contribution of that plant to our operating and financial performance, the effect of crop conditions in our market areas, the effect of

current economic conditions and macroeconomic trends on the demand for our products, expectations regarding pricing for agricultural commodities, our working capital and capital expenditure requirements, capital resources and the payment of dividends. Such forward-looking statements reflect our current beliefs and are based on information currently available to us, including certain key expectations and assumptions concerning anticipated financial performance, business prospects, strategies, product pricing, regulatory developments, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, foreign exchange rates and the cost of materials, labour and services. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including changes in international, national and local business conditions, crop yields, crop conditions, seasonality, industry cyclicality, volatility of production costs, commodity prices, the cost and availability of capital, foreign exchange rates, and competition. These risks and uncertainties are described under “Risks and Uncertainties” in this MD&A and in our most recently filed Annual Information Form. We cannot assure readers that actual results will be consistent with these forward-looking statements and we undertake no obligation to update such statements except as expressly required by law.

#### **ADDITIONAL INFORMATION**

Additional information relating to Ag Growth, including Ag Growth’s most recent Annual Information Form, is available on SEDAR ([www.sedar.com](http://www.sedar.com)).

OCTOBER **2010**

Franklin was established in 1979 and acquired by AGI in October 2010.

DECEMBER **2010**

Tramco was founded in 1967, and is based in Wichita, Kansas. Tramco was acquired by AGI in December 2010.

## OCTOBER 2011

In October 2011, AGI acquired Airlanco based in Falls City, NE. It was founded in 2000.

## 2011

The last 15 years have been dramatic for Ag Growth International, with acquisitions, integration and expansion of our manufacturing facilities. We believe that strong relationships and quality products are the cornerstones to success.

# FINANCIAL STATEMENTS

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ag Growth International Inc.

We have audited the accompanying consolidated financial statements of Ag Growth International Inc., which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and 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 audits 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 the auditors' 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, the auditors 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 in our audits 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 financial position of Ag Growth International Inc. as at December 31, 2011 and 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Winnipeg, Canada

March 13, 2012

*Ernst & Young LLP*

Chartered Accountants

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>ASSETS</b> (note 22)			
<b>Current assets</b>			
Cash and cash equivalents (note 15)	6,839	34,981	109,094
Cash held in trust (note 7)	—	822	—
Restricted cash (notes 6, 7, 16 and 21)	2,439	1,860	—
Accounts receivable (note 17)	49,691	38,535	25,072
Inventory (note 18)	64,558	52,574	39,621
Prepaid expenses and other assets (note 21(f))	2,720	7,628	1,772
Income taxes recoverable	1,506	—	598
Derivative instruments (note 27)	—	4,200	7,652
	<b>127,753</b>	140,600	183,809
<b>Non-current assets</b>			
Property, plant and equipment, net (note 9)	83,434	79,022	37,873
Goodwill (note 11)	65,876	62,355	52,187
Intangible assets, net (note 10)	75,510	72,345	68,441
Available-for-sale investment (note 14)	2,800	2,000	2,000
Derivative instruments (note 27)	—	—	1,848
Deferred tax asset (note 25)	38,092	42,063	47,356
	<b>265,712</b>	257,785	209,705
Assets held for sale (notes 9 and 13)	1,101	—	—
<b>Total assets</b>	<b>394,566</b>	398,385	393,514

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

(in thousands of Canadian dollars)

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities (note 24 and 29)	22,264	22,623	12,736
Customer deposits	8,018	6,573	8,340
Dividends payable	2,509	2,509	2,224
Acquisition price, transaction and financing costs payable (notes 6 and 7)	1,938	11,994	1,028
Income taxes payable	—	56	—
Current portion of long-term debt (note 22)	16	128	16
Current portion of obligations under finance leases (note 22)	131	432	—
Current portion of derivative instruments (note 27)	1,828	—	—
Current portion of share award incentive plan (note 21)	1,495	2,003	—
Provisions (note 19)	2,222	1,942	1,194
	<b>40,421</b>	<b>48,260</b>	<b>25,538</b>
<b>Non-current liabilities</b>			
Long-term debt (note 22)	35,824	24,518	25,403
Obligations under finance leases (note 22)	—	138	—
Convertible unsecured subordinated debentures (note 23)	107,202	105,140	103,107
Deferred tax liability (note 25)	8,960	8,464	2,214
Share award incentive plan (note 21)	—	1,571	5,857
	<b>151,986</b>	<b>139,831</b>	<b>136,581</b>
<b>Total liabilities</b>	<b>192,407</b>	<b>188,091</b>	<b>162,119</b>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

(in thousands of Canadian dollars)

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>Shareholders' equity</b> (note 20)			
Common shares	151,039	151,376	157,279
Accumulated other comprehensive income (loss)	(1,875)	(443)	5,590
Equity component of convertible debentures	5,105	5,105	5,105
Contributed surplus	5,341	6,121	3,859
Retained earnings	42,549	48,135	59,562
<b>Total shareholders' equity</b>	<b>202,159</b>	<b>210,294</b>	<b>231,395</b>
<b>Total liabilities and shareholders' equity</b>	<b>394,566</b>	<b>398,385</b>	<b>393,514</b>

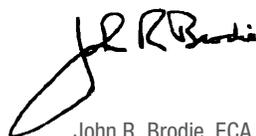
Commitments and contingencies (note 32)

See accompanying notes

On behalf of the Board of Directors:



Bill Lambert  
Director



John R. Brodie, FCA  
Director

# CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except per share amounts)

	Years ended December 31	
	2011	2010
<b>Sales</b>	<b>305,932</b>	269,267
Cost of goods sold (note 8(d))	<b>204,203</b>	163,958
<b>Gross profit</b>	<b>101,729</b>	105,309
<b>Expenses</b>		
Selling, general and administrative (note 8(e))	<b>54,826</b>	51,058
Other operating income (note 8(a))	<b>(100)</b>	(605)
Finance costs (note 8(c))	<b>12,668</b>	12,484
Finance expense (income) (note 8(b))	<b>159</b>	(2,065)
	<b>67,553</b>	60,872
Profit before income taxes	<b>34,176</b>	44,437
Income tax expense (note 25)		
Current	<b>3,910</b>	5,627
Deferred	<b>5,743</b>	8,049
	<b>9,653</b>	13,676
<b>Profit for the year</b>	<b>24,523</b>	30,761
<b>Profit per share – basic</b> (note 30)	<b>1.97</b>	2.43
<b>Profit per share – diluted</b> (note 30)	<b>1.95</b>	2.40

*See accompanying notes*



## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Year ended December 31, 2011

	Common shares	Equity component of convertible debentures	Contributed surplus	Retained earnings	Cash flow hedge reserve	Foreign currency reserve	Available-for- sale reserve	Total equity
<b>As at January 1, 2011</b>	151,376	5,105	6,121	48,135	2,966	(3,409)	—	210,294
Profit for the year	—	—	—	24,523	—	—	—	24,523
Other comprehensive income (loss)	—	—	—	—	(4,306)	2,286	588	(1,432)
Conversion of subordinated debentures (note 20)	115	—	—	—	—	—	—	115
Share-based payment transactions (note 21)	(452)	—	(780)	—	—	—	—	(1,232)
Dividends to shareholders (note 20)	—	—	—	(30,109)	—	—	—	(30,109)
<b>As at December 31, 2011</b>	151,039	5,105	5,341	42,549	(1,340)	(1,123)	588	202,159

See accompanying notes

(in thousands of Canadian dollars)

Year ended December 31, 2010

	Common shares	Equity component of convertible debentures	Contributed surplus	Retained earnings	Cash flow hedge reserve	Foreign currency reserve	Total equity
<b>As at January 1, 2010</b>	157,279	5,105	3,859	59,562	5,590	—	231,395
Profit for the year	—	—	—	30,761	—	—	30,761
Other comprehensive loss	—	—	—	—	(2,624)	(3,409)	(6,033)
Share-based payment transactions	2,154	—	2,262	—	—	—	4,416
Common shares purchased under normal course issuer bid	(8,057)	—	—	(15,334)	—	—	(23,391)
Dividends to shareholders	—	—	—	(26,854)	—	—	(26,854)
<b>As at December 31, 2010</b>	151,376	5,105	6,121	48,135	2,966	(3,409)	210,294

See accompanying notes

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

	Years ended December 31	
	2011	2010
Profit for the year	24,523	30,761
Other comprehensive loss		
Change in fair value of derivatives designated as cash flow hedges	(1,556)	3,034
Gains on derivatives designated as cash flow hedges recognized in net earnings in the current period	(4,452)	(6,692)
Income tax effect on cash flow hedges	1,702	1,034
Exchange differences on translation of foreign operations	2,286	(3,409)
Gain on available-for-sale financial assets	800	—
Income tax effect on available-for-sale financial assets	(212)	—
<b>Other comprehensive loss for the year</b>	<b>(1,432)</b>	<b>(6,033)</b>
<b>Total comprehensive income for the year</b>	<b>23,091</b>	<b>24,728</b>

*See accompanying notes*



# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, except per share amounts)

	Years ended December 31	
	2011	2010
<b>OPERATING ACTIVITIES</b>		
Profit before income taxes for the year	34,176	44,437
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	5,418	3,313
Amortization of intangible assets	3,776	3,418
Translation loss (gain) on foreign exchange	1,793	(1,022)
Non-cash component of interest expense	2,422	2,274
Accelerated vesting	—	1,703
Stock-based compensation	2,038	6,511
Loss on sale of property, plant and equipment	(76)	(263)
	<b>49,547</b>	60,371
Net change in non-cash working capital balances related to operations (note 15)	<b>(14,453)</b>	(16,307)
Settlement of SAIP obligation	<b>(1,998)</b>	—
Income tax paid	<b>(5,217)</b>	(5,063)
<b>Cash provided by operating activities</b>	<b>27,879</b>	39,001
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	<b>(9,254)</b>	(25,021)
Acquisition of shares of Tramco, Inc. (note 7), net of cash acquired	<b>(9,930)</b>	(10,163)
Acquisition of shares of Mepu Oy, including bank indebtedness assumed (note 7)	—	(12,309)
Acquisition of assets of Franklin Enterprises Ltd. (note 7)	—	(8,856)
Acquisition of assets of Airlanco Inc. (note 6)	<b>(11,970)</b>	—
Transfer to cash held in trust	<b>(243)</b>	(2,682)
Proceeds from sale of property, plant and equipment	<b>500</b>	648
Development of intangible assets	<b>(1,471)</b>	—
Transaction and financing costs payable	<b>(433)</b>	1,484
<b>Cash used in investing activities</b>	<b>(32,801)</b>	(56,899)

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(in thousands of Canadian dollars, except per share amounts)

	Years ended December 31	
	2011	2010
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(319)	(89)
Repayment of obligations under finance leases	(439)	(135)
Issuance of long-term debt	10,993	—
Dividends paid	(30,109)	(26,568)
Purchase of common shares under the normal course issuer bid	—	(23,391)
Purchase of shares in the market under the long-term incentive plan	(3,346)	(6,032)
<b>Cash used in financing activities</b>	<b>(23,220)</b>	<b>(56,215)</b>
<b>Net decrease in cash and cash equivalents during the year</b>	<b>(28,142)</b>	<b>(74,113)</b>
Cash and cash equivalents, beginning of year	34,981	109,094
<b>Cash and cash equivalents, end of year</b>	<b>6,839</b>	<b>34,981</b>
<b>Interest expense paid</b>	<b>10,259</b>	<b>11,694</b>

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 (in thousands of Canadian dollars, except where otherwise noted and per share data)

## 1. ORGANIZATION

The consolidated financial statements of Ag Growth International Inc. (“Ag Growth Inc.”) for the years ended December 31, 2011 and 2010 were authorized for issuance in accordance with a resolution of the directors on March 13, 2012. Ag Growth International Inc. is a listed company incorporated and domiciled in Canada, whose shares are publicly traded at the Toronto Stock Exchange. The registered office is located at 1301 Kenaston Blvd., Winnipeg, Manitoba, Canada.

## 2. OPERATIONS

Ag Growth conducts business in the grain handling, storage and conditioning market.

Included in these consolidated financial statements are the accounts of Ag Growth Inc. and all of its subsidiary partnerships and incorporated companies; together, Ag Growth Inc. and its subsidiaries are referred to as “Ag Growth” or the “Company”.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The first date at which IFRS was applied was January 1, 2010 (the “Transition Date”). Note 33 contains reconciliations and descriptions of the effect of the Company’s transition from Canadian generally accepted accounting principles (“GAAP”) to IFRS. It also includes reconciliations of: the consolidated statements of financial position as at January 1, 2010 and December 31, 2010; the change in equity as at January 1, 2010 and December 31, 2010; and the changes in net income and comprehensive income for the year ended December 31, 2010.

### Basis of preparation

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company Ag Growth International Inc. All values are rounded to the nearest thousand. They are prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS consolidated statement of financial position at January 1, 2010, for the purposes of the transition, except for elected exemptions as described in note 33.

### Principles of consolidation

The consolidated financial statements include the accounts of Ag Growth International Inc. and its wholly

owned subsidiaries, Ag Growth Industries Partnership, AGX Holdings Inc., Ag Growth Holdings Corp., Westfield Distributing (North Dakota) Inc., Hansen Manufacturing Corp. (“Hi Roller”), Union Iron Inc. (“Union Iron”), Applegate Trucking Inc., Applegate Livestock Equipment, Inc. (“Applegate”), Airlanco Inc. (“Airlanco”), Tramco, Inc. (“Tramco”), Tramco Europe Ltd., Euro-Tramco B.V., Ag Growth Suomi Oy and Mepu Oy (“Mepu”) as at December 31, 2011. Subsidiaries are fully consolidated from the date of acquisition, it being the date on which Ag Growth obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-company balances, income and expenses and unrealized gains and losses resulting from intra-company transactions are eliminated in full.

### Business combinations and goodwill

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

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

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

allocated to a new CGU compared to the part remaining in the old organizational structure.

On first-time adoption of IFRS, Ag Growth elected not to apply IFRS 3, *Business Combinations* retrospectively to acquisitions carried out before January 1, 2010. Accordingly, the goodwill associated with acquisitions carried out prior to the IFRS transition date of January 1, 2010 is carried at the amount reported in the consolidated financial statements prepared under Canadian GAAP as of December 31, 2009.

### **Foreign currency translation**

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

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

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

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange

prevailing at the reporting date and their statements of income are translated at the monthly rates of exchange. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

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

### **Property, plant and equipment**

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

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

Buildings and building components	20 to 60 years
Manufacturing equipment	10 to 20 years
Computer hardware	5 years
Leasehold improvements	Over the lease period
Equipment under finance leases	10 years
Furniture and fixtures	5 to 10 years
Vehicles	4 to 16 years

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

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

### Leases

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

Finance leases, which transfer to Ag Growth substantially all the risks and benefits incidental to ownership of the

leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that Ag Growth will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

### Borrowing costs

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

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated

amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

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

Internally generated intangible assets are capitalized when the product or process is technically and commercially feasible and Ag Growth has sufficient resources to complete development. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Expenditures incurred to develop new

demos and prototypes are recorded at cost as internally generated intangible assets. Amortization of the internally generated intangible assets begins when the development is complete and the asset is available for use and it is amortized over the period of expected future benefit. Amortization is recorded in cost of goods sold. During the period of development, the asset is tested for impairment at least annually.

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

Patents	8 years
Distribution networks	8 to 25 years
Demos and prototypes	3 to 10 years
Inventory order backlog	3 to 6 months
Software	8 years

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

**Impairment of non-financial assets**

Ag Growth assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual testing for an asset is required, Ag Growth estimates the asset's recoverable amount. The recoverable amount of goodwill as well as intangible assets not yet available for use is estimated at

least annually on December 31. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

Value in use is determined by discounting estimated future cash flows using a pretax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. The recoverable amount of assets that do not generate independent cash flows is determined based on the CGU to which the asset belongs.

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

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

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

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

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



### **Cash and cash equivalents**

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

### **Inventory**

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

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

### **Financial instruments**

#### ***Financial assets and liabilities***

Ag Growth classifies its financial assets as (i) financial assets at fair value through profit or loss, (ii) loans and

receivables or (iii) available-for-sale, and its financial liabilities as either (i) financial liabilities at fair value through profit or loss or (ii) other financial liabilities. Derivatives are designated as hedging instruments in an effective hedge, as appropriate. Appropriate classification of financial assets and liabilities is determined at the time of initial recognition or when reclassified in the consolidated statement of financial position.

All financial instruments are recognized initially at fair value plus, in the case of investments and liabilities not at fair value through profit or loss, directly attributable transaction costs. Financial instruments are recognized on the trade date, which is the date on which Ag Growth commits to purchase or sell the asset.

#### ***Financial assets at fair value through profit or loss (“FVTPL”)***

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with changes in the fair value recognized in finance income or finance costs in the consolidated statement of income.

Ag Growth has currently not designated any financial assets upon initial recognition as FVTPL.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include receivables and cash and cash equivalents. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment. The effective interest amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs.

#### ***Available-for-sale financial investments***

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income in finance costs and removed from the available-for-sale reserve.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

#### ***Derecognition***

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

#### ***Impairment of financial assets***

Ag Growth assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that

has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, Ag Growth first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Ag Growth determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of income.

Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

For available-for-sale financial investments, Ag Growth assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized



cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

#### ***Financial liabilities at FVTPL***

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at FVTPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held-for-trading are recognized in the statement of income.

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

#### ***Other financial liabilities***

Financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities include long-term debt issued, which is initially measured at fair value, which is the consideration received, net of transaction costs incurred. Transaction costs related to the long-term debt instruments are included in the value of

the instruments and amortized using the effective interest rate method. The effective interest expense is included in finance costs in the consolidated statement of income.

#### ***Derecognition***

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

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

#### ***Interest income***

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of income.

#### ***Derivative instruments and hedge accounting***

Ag Growth uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair

value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Ag Growth analyzes all of its contracts, of both a financial and non-financial nature, to identify the existence of any “embedded” derivatives. Embedded derivatives are accounted for separately from the host contract at the inception date when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Any gains or losses arising from changes in the fair value of derivatives are recorded directly in the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk).
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, Ag Growth formally designates and documents the hedge relationship

to which Ag Growth wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which they were designated.

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

#### ***Cash flow hedges***

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statement of income in other operating income or expenses. Amounts recognized as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

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

Ag Growth uses primarily forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments.

#### **Offsetting of financial instruments**

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

#### **Fair value of financial instruments**

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

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation

techniques that are recognized by market participants. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

#### **Provisions**

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

#### ***Warranty provisions***

Provisions for warranty-related costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised quarterly.

#### **Profit per share**

The computation of profit per share is based on the weighted average number of shares outstanding during

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

### **Revenue recognition**

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

#### ***Sale of goods***

Revenue from the sale of goods is in general recognized when significant risks and rewards of ownership are transferred to the customer. Ag Growth generally recognizes revenue when products are shipped, free on board shipping point; the customer takes ownership and assumes risk of loss; collection of the related receivable is probable; persuasive evidence of an arrangement exists; and, the sales price is fixed or determinable. Customer deposits are recorded as a current liability when cash is received from the customer and recognized as revenue at the time product is shipped, as noted above.

In transactions involving the sale of specific customer products, Ag Growth applies layaway sales accounting. Under layaway sales, Ag Growth recognizes revenue prior to the product being shipped, provided the following criteria are met as of the reporting date:

- The goods are ready for delivery to the customer; this implies the goods have been produced to the specifications of the customer and Ag Growth has assessed, through its quality control processes, that the goods comply with the specifications;
- A deposit of more than 80% of the total contract value for the respective goods has been received;
- The goods are specifically identified for the customer in Ag Growth's inventory tracking system; and
- Ag Growth does not have any other obligation than to ship the product, or to store the product until the customer picks it up.

#### ***Bill and hold***

Ag Growth applies bill and hold sales accounting. Under bill and hold sales, Ag Growth recognizes revenue when the buyer takes title, provided the following criteria are met as of the reporting date:

- It is probable that delivery will be made;
- The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- The buyer specifically acknowledges the deferred delivery instructions; and

- The usual payment terms apply.

#### ***Construction contracts***

Ag Growth from time to time enters into arrangements with its customers that are considered construction contracts. These contracts (or a combination of contracts) are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Ag Growth principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognized by reference to the stage of completion of the contract activity at period end (the percentage of completion method).

The outcome of a construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable. In applying the percentage of completion method, revenue

recognized corresponds to the total contract revenue (as defined above) multiplied by the actual completion rate based on the proportion of total contract costs (as defined above) incurred to date and the estimated costs to complete.

### **Income taxes**

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

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

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

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

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

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

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

Deferred tax items are recognized in correlation to the underlying transaction either in the income statement, other comprehensive income or directly in equity.

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

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

### **Sales tax**

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

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



### **Share-based compensation plans**

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

#### ***Equity-settled transactions***

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

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting period reflects the extent to which the vesting period has expired and Ag Growth's best estimate of the number of the shares that will ultimately vest. The expense or credit recognized for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in the consolidated statement of income in the respective function line. When options and other share-based compensation awards are exercised or exchanged, the amounts previously credited to contributed

surplus are reversed and credited to shareholders' equity. The amount of cash, if any, received from participants is also credited to shareholders' equity.

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

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

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

#### ***Cash-settled transactions***

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes model (note 21). This fair value is expensed over the period until the vesting date, with recognition of a corresponding

liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in the consolidated statement of income in the line of the function the respective employee is engaged in.

### **Post-retirement benefit plans**

Ag Growth contributes to retirement savings plans subject to maximum limits per employee. Ag Growth accounts for such defined contributions as an expense in the period in which the contributions are required to be made. Ag Growth does not have any defined benefit plans. Certain of Ag Growth's plans classify as multi-employer plans and would ultimately provide the employee a defined benefit pension. However, based upon the evaluation of the available information, Ag Growth is not required to account for the plans in accordance with the defined benefit accounting rules, and accounts for such plans as it does defined contribution plans.

### **Research and development expenses**

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

### **Government grants**

Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grants relate to an asset, the fair value is credited to the

cost of the asset and is released to the income statement over the expected useful life in a consistent manner with the depreciation method for the relevant assets.

#### **Investment tax credits**

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

#### **4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key assumptions

concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

#### **Construction contracts**

The percentage of completion and the revenue to recognize are determined on the basis of estimates. Consequently, Ag Growth has implemented an internal financial budgeting and reporting system. In particular, Ag Growth reviews the estimates of contract revenue and contract costs on a quarterly basis.

#### **Impairment of non-financial assets**

Ag Growth's impairment test is based on value in use or fair value less cost to sell calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and do not include restructuring activities that Ag Growth is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate as well as the forecasted margins and growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to

evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 12.

#### **Development costs**

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

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

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

#### **Fair value of financial instruments**

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



### Share-based payments

Ag Growth measures the cost of equity-settled share-based payment transactions with employees by reference to the fair value of equity instruments at the grant date, whereas the fair value of cash-settled share-based payments is remeasured at every reporting date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of these instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield.

### Taxes

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

Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in

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

### Acquisition accounting

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as of the date of acquisition. Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be

applicable at a future date. The Company intends to adopt those standards when they become effective.

### Presentation of financial statements (amendments to IAS 1)

On June 16, 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments enhance the presentation of other comprehensive income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after January 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

### Financial instruments: classification and measurement ("IFRS 9")

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board's ("IASB") work on the replacement of the existing standard for financial instruments ("IAS 39") and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of hedge accounting. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of Ag Growth's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### **Employee benefits (“IAS 19”)**

On June 16, 2011, the IASB revised IAS 19, *Employee Benefits*. The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

### **Offsetting Financial Assets and Liabilities**

In December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation*. The amendments are intended to clarify certain aspects of the existing guidance on offsetting financial assets and financial liabilities due to the diversity in application of the requirements on offsetting. The IASB also amended IFRS 7 to require information about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2012. However, the new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendments need to be provided retrospectively to all comparative

periods. The Corporation is currently assessing the impact of adopting these amendments on the consolidated financial statements.

### **IFRS 10 Consolidated financial statements**

IFRS 10 replaces the portion of IAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation – Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IFRS 10 establishes a single control model that applies to all entities (including “special purpose entities” or “structured entity” as they are now referred to in the new standards, or “variable interest entities” as they are referred to in US GAAP). The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements of IAS 27. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities.

IFRS 10 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, if any.

### **IFRS 11 Joint Arrangements**

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* and

SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 uses some of the terms that were used by IAS 31, but with different meanings. Whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement that exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (“JCEs”) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, IAS 31 focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, if any.



### IFRS 12 Disclosure of interests in other entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28, *Investment in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity.

IFRS 12 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, which will be limited to disclosure requirements for the financial statements.

### IFRS 13 Fair Value Measurement

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges.

IFRS 13 is effective for annual periods commencing on or after January 1, 2013 and will be applied prospectively. The Company is currently in the process of evaluating the implications of this new standard.

### Deferred Tax: Recovery of underlying assets (amendments to IAS 12)

On December 20, 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets* (amendments to IAS 12) concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IAS 12, *Income Taxes* for non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40, *Investment Property*. IAS 12 has been updated to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and
- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. This amendment is not expected to have an impact on the Company.

## 6. BUSINESS COMBINATIONS 2011

### (a) Airlanco Inc. (“Airlanco”)

Effective October 4, 2011, the Company acquired substantially all of the operating assets of Airlanco, a manufacturer of grain drying systems. The Company acquired Airlanco to expand its catalogue of aeration and dust collection products.

The purchase has been accounted for by the acquisition method with the results of Airlanco's operations included in the Company's net earnings from the date of acquisition. The assets and liabilities of Airlanco on the date of acquisition have been recorded in the consolidated financial statements at their estimated fair values as follows:

	\$
Accounts receivable	1,549
Inventory	2,134
Prepaid expenses and other	126
Property, plant and equipment	1,747
Intangible assets	
Distribution network	3,090
Brand name	1,608
Order backlog	21
Patents	4
Goodwill	3,087
Accounts payable and accrued liabilities	(1,192)
Customer deposits	(204)
	11,970

The allocation of the consideration transferred to acquired assets and liabilities is preliminary, utilizing information available at the time the consolidated financial statements were prepared, and the final allocation of the consideration transferred may change when more information becomes available.

The goodwill of \$3,087 comprises the value of expected synergies arising from the acquisition and the values included in the workforce of the new subsidiary. The goodwill balance is allocated to the Airlanco CGU and is expected to be deductible for tax purposes.

From the date of acquisition, Airlanco has contributed \$2,701 of revenue and a net loss before tax of \$92 to the 2011 results of the company. If the acquisition had taken place as at January 1, 2011, revenue and profit from continuing operations would have increased by \$9,766 and \$2,088, respectively.

The consideration transferred of \$11,970 was paid in cash. The impacts on the cash flow on the acquisition of Airlanco are as follows:

	\$
Transaction costs of the acquisition	160
Purchase consideration transferred	11,970
<b>Net cash flow on acquisition</b>	<b>12,130</b>

As at December 31, 2011, the Company had restricted cash of \$508 relating to the acquisition of Airlanco and \$91 of transaction costs payable included in acquisition price, transaction and financing costs payable.

## 7. BUSINESS COMBINATIONS 2010

### (a) Mepu

Effective April 29, 2010, the Company acquired 100% of the outstanding shares of Mepu, a manufacturer of grain drying systems. The acquisition of Mepu provides the Company with a complementary product line, distribution in a region where the Company previously had only limited representation and a corporate footprint near the growth markets of Russia and Eastern Europe.

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

The assets and liabilities of Mepu as at the date of acquisition have been recorded in the consolidated financial statements at their fair values as follows:

	\$
Accounts receivable	1,208
Inventory	4,465
Prepaid expenses and other	396
Deferred tax asset	330
Property, plant and equipment	4,084
Intangible assets	
Distribution network	1,562
Brand name	743
Order backlog	363
Goodwill	3,614
Bank indebtedness	(1,035)
Long-term debt	(382)
Accounts payable and accrued liabilities	(2,752)

Customer deposits	(134)
Deferred tax liability	(1,188)
<b>Purchase consideration transferred</b>	<b>11,274</b>

The goodwill of \$3,614 comprises the value of expected synergies arising from the acquisition and the values included in the workforce of the new subsidiary. The goodwill balance is allocated to Mepu and certain North American divisions' CGUs because management is expecting sales synergies from a wider product line and complementary distribution networks. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, Mepu has contributed to the 2010 results \$11,089 of revenue and \$850 to the net profit before tax of the Company. If the combination had taken place as at January 1, 2010, revenue from continuing operations in 2010 would have increased by \$2,378 and the profit from continuing operations for the Company in 2010 would decrease by \$1,631.

The purchase consideration in the amount of \$11,274 was paid in cash. The impacts on the cash flow on the acquisition of Mepu are as follows:

	\$
Transaction costs of the acquisition	643
Purchase consideration transferred	11,274
<b>Net cash flow on acquisition</b>	<b>11,917</b>

Transaction costs of the acquisition are included in cash flows from investing activities. In the three-month period

ended June 30, 2011, the conditions related to the cash holdback were met and the Company transferred \$572 from cash held in trust to the vendors. As at December 31, 2011 there are no remaining funds held in trust.

**(b) Franklin Enterprises Ltd. (“Franklin”)**

Effective October 1, 2010, the Company acquired substantially all of the operating assets of Franklin, a custom manufacturer. The Company acquired Franklin to enhance its manufacturing capabilities and to increase production capacity in periods of high in-season demand.

The purchase has been accounted for by the acquisition method with the results of Franklin’s operations included in the Company’s net earnings from the date of acquisition. The assets and liabilities of Franklin on the date of acquisition have been recorded in the consolidated financial statements at their estimated fair values as follows:

	\$
Inventory	1,557
Prepaid expenses and other	8
Property, plant and equipment	8,171
Goodwill	68
Obligations under finance lease contracts	(707)
Accounts payable and accrued liabilities	(241)
<b>Purchase consideration transferred</b>	<b>8,856</b>

The goodwill of \$68 comprises the value of expected synergies arising from the acquisition and the values included in the workforce of the new subsidiary. The goodwill balance is allocated to the Franklin CGU and is expected to be deductible for tax purposes.

The acquisition of Franklin was an asset purchase and as such the Company does not have access to the books and records of Franklin for any periods prior to the acquisition date of October 1, 2010. Therefore, the impacts on revenues and profit of the Company from an acquisition of Franklin at the beginning of 2010 cannot be reported. From the date of acquisition, Franklin has contributed \$3,261 of revenue and a net loss before tax of \$548 to the 2010 results.

The purchase consideration in the amount of \$8,856 was paid in cash. The impacts on the cash flow on acquisition of Franklin are as follows:

	\$
Transaction costs of the acquisition	356
Purchase consideration transferred	8,856
<b>Net cash flow on acquisition</b>	<b>9,212</b>

In the three-month period ended December 31, 2011, the conditions related to the cash holdback were met and the Company transferred \$250 cash held in trust to the vendors. As at December 31, 2011 there are no remaining funds held in trust.

**(c) Tramco, Inc. (“Tramco”)**

Effective December 20, 2010, the Company acquired 100% of the outstanding shares of Tramco, a manufacturer of chain conveyors. Tramco is an industry leader and provides the Company with an entry point into the grain processing sector of the food supply chain.

The purchase has been accounted for by the acquisition method with the results of Tramco’s operations included in the Company’s net earnings from the date of acquisition.

The assets and liabilities of Tramco on the date of acquisition have been recorded in the consolidated financial statements at their estimated fair values as follows:

	\$
Accounts receivable	4,211
Inventory	4,162
Prepaid expenses and other	208
Deferred tax asset	340
Property, plant and equipment	8,495
Intangible assets	
Distribution network	1,701
Brand name	2,361
Software	1,118
Order backlog	272
Goodwill	7,343
Accounts payable and accrued liabilities	(4,458)
Customer deposits	(967)
Income taxes payable	(143)
Deferred tax liability	(4,550)
<b>Purchase consideration transferred</b>	<b>20,093</b>

The goodwill of \$7,343 comprises the value of expected synergies arising from the acquisition and the values included in the workforce of the new subsidiary.

Goodwill at the time of the transaction is not deductible for tax purposes.

From the acquisition date of December 20, 2010, Tramco contributed \$184 of revenue and a net loss before tax of \$78 to 2010 results of the Company. Tramco has

operations in the U.S. and the U.K. and their results were not consolidated on a regular basis. As a result, the Company is not able to quantify the impact Tramco would have had on the Company's financial results if the acquisition had been made on January 1, 2010.

The impacts on the cash flow on acquisition of Tramco are as follows:

	\$
Purchase consideration paid in 2010	9,168
Purchase consideration paid in 2011	9,930
Transferred to cash held in trust	995
Transaction costs of the acquisition paid in 2010	339
Transaction costs of the acquisition paid in 2011	164
<b>Net cash flow on acquisition</b>	<b>20,596</b>

Transaction costs of the acquisition are included in cash flows from investing activities. At the request of the vendor, the purchase price was paid in two installments. As at December 31, 2011, the Company had restricted cash of \$1,017 relating to the acquisition of Tramco. Additionally, there is \$322 due to vendor included in acquisition price, transaction and financing costs payable.

## 8. OTHER EXPENSES (INCOME)

	2011	2010
	\$	\$
<b>(a) Other operating expense (income)</b>		
Cash flow hedge accounting	126	(121)
Net loss on disposal of property, plant and equipment	76	262
Other	(302)	(746)
	<b>(100)</b>	<b>(605)</b>
<b>(b) Finance expense (income)</b>		
Interest income from banks	(117)	(765)
Loss (gain) on foreign exchange	276	(1,300)
	<b>159</b>	<b>(2,065)</b>

## (c) Finance costs

Interest on overdrafts and other finance costs	51	49
Interest, including non-cash interest, on debts and borrowings	2,377	2,344
Interest, including non-cash interest, on convertible debentures (note 23)	10,220	10,083
Finance charges payable under finance lease contracts	20	8
	<b>12,668</b>	<b>12,484</b>

## (d) Cost of goods sold

Depreciation	4,933	2,927
Amortization of intangible assets	503	450
Warranty provision	280	748
Cost of inventories recognized as an expense	198,487	159,833
	<b>204,203</b>	<b>163,958</b>

## (e) Selling, general and administrative expenses

Depreciation	485	385
Amortization of intangible assets	3,273	2,968
Minimum lease payments recognized as an operating lease expense	943	1,273
Transaction costs	1,676	1,696
Selling, general and administrative	48,449	44,736
	<b>54,826</b>	<b>51,058</b>

## (f) Employee benefits expense

Wages and salaries	67,085	58,686
Share-based payment transaction expense	2,038	6,504
Pension costs	1,925	1,470
	<b>71,048</b>	<b>66,660</b>
Included in cost of goods sold	48,013	30,630
Included in general and administrative expense	23,035	36,030
	<b>71,048</b>	<b>66,660</b>

## 9. PROPERTY, PLANT AND EQUIPMENT

	Land	Grounds	Buildings and building components	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>COST</b>										
<b>Balance, January 1, 2011</b>	4,777	488	27,599	431	982	5,283	1,948	31,548	17,589	90,645
Additions	61	35	9,730	35	80	1,043	525	15,039	(17,294)	9,254
Acquisitions of a subsidiary	52	71	764	—	65	101	25	668	—	1,746
Classification as assets held for sale	(146)	—	(1,089)	—	—	—	—	—	—	(1,235)
Disposals	—	—	—	—	—	(164)	(24)	(724)	—	(912)
Exchange differences	7	3	176	—	21	112	27	269	(18)	597
<b>Balance, December 31, 2011</b>	<b>4,751</b>	<b>597</b>	<b>37,180</b>	<b>466</b>	<b>1,148</b>	<b>6,375</b>	<b>2,501</b>	<b>46,800</b>	<b>277</b>	<b>100,095</b>
<b>DEPRECIATION</b>										
<b>Balance, January 1, 2011</b>	—	124	1,492	196	295	1,889	1,115	6,512	—	11,623
Depreciation charge for the year	—	65	1,055	71	105	673	308	3,141	—	5,418
Classification as asset held for sale	—	—	(134)	—	—	—	—	—	—	(134)
Disposals	—	—	—	—	—	(68)	(16)	(262)	—	(346)
Exchange differences	—	1	33	3	6	8	11	38	—	100
<b>Balance, December 31, 2011</b>	<b>—</b>	<b>190</b>	<b>2,446</b>	<b>270</b>	<b>406</b>	<b>2,502</b>	<b>1,418</b>	<b>9,429</b>	<b>—</b>	<b>16,661</b>
Net book value, January 1, 2011	4,777	364	26,107	235	687	3,394	833	25,036	17,589	79,022
Net book value, December 31, 2011	4,751	407	34,734	196	742	3,873	1,083	37,371	277	83,434

	Land	Grounds	Buildings and building components	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>COST</b>										
<b>Balance, January 1, 2010</b>	2,919	235	14,030	453	856	3,870	1,568	22,451	253	46,635
Additions	—	80	3,012	—	12	1,276	206	2,902	17,309	24,797
Acquisitions of a subsidiary	2,023	180	11,159	—	98	161	214	6,915	—	20,750
Disposals	(66)	—	(170)	—	—	(146)	(5)	(260)	—	(647)
Exchange differences	(99)	(7)	(432)	(22)	16	122	(35)	(460)	27	(890)
<b>Balance, December 31, 2010</b>	<b>4,777</b>	<b>488</b>	<b>27,599</b>	<b>431</b>	<b>982</b>	<b>5,283</b>	<b>1,948</b>	<b>31,548</b>	<b>17,589</b>	<b>90,645</b>
<b>DEPRECIATION</b>										
<b>Balance, January 1, 2010</b>	—	77	1,036	139	214	1,454	871	4,971	—	8,762
Depreciation charge for the year	—	47	490	63	82	519	254	1,858	—	3,313
Disposals	—	—	(23)	—	—	(79)	(3)	(146)	—	(251)
Exchange differences	—	—	(11)	(6)	(1)	(5)	(7)	(171)	—	(201)
<b>Balance, December 31, 2010</b>	<b>—</b>	<b>124</b>	<b>1,492</b>	<b>196</b>	<b>295</b>	<b>1,889</b>	<b>1,115</b>	<b>6,512</b>	<b>—</b>	<b>11,623</b>
Net book value, January 1, 2010	2,919	158	12,994	314	642	2,416	697	17,480	253	37,873
Net book value, December 31, 2010	4,777	364	26,107	235	687	3,394	833	25,036	17,589	79,022

Construction in progress is comprised primarily of building and equipment, the cost of which are not depreciated until the assets are ready for use in the reporting period.

Ag Growth regularly assesses its long-lived assets for impairment. As at December 31, 2011 and 2010, the recoverable amount of each CGU exceeded the carrying amounts of the assets allocated to the respective units.

**Capitalized borrowing costs**

No borrowing costs were capitalized in 2010 or 2011.

**Finance leases**

Included in manufacturing equipment is equipment held under finance leases, the carrying value of which at December 31, 2011 was \$131 (December 31, 2010 – \$839, January 1, 2010 – nil). Leased assets are pledged as security for the related finance lease liabilities.

**10. INTANGIBLE ASSETS**

	Distribution networks	Brand names	Patents	Software	Order backlog	Development projects	Total
	\$	\$	\$	\$	\$	\$	\$
<b>COST</b>							
<b>Balance, January 1, 2011</b>	52,346	32,582	1,138	1,092	628	—	87,786
Additions							
Internal development	—	—	—	—	—	2,011	2,011
Acquisition	3,090	1,608	4	—	21	—	4,723
Exchange differences	197	124	20	25	17	(1)	382
<b>Balance, December 31, 2011</b>	55,633	34,314	1,162	1,117	666	2,010	94,902
<b>AMORTIZATION</b>							
<b>Balance, January 1, 2011</b>	14,509	—	568	—	364	—	15,441
Amortization charge for the year	3,226	—	87	135	281	47	3,776
Exchange differences	139	—	10	5	21	—	175
<b>Balance, December 31, 2011</b>	17,874	—	665	140	666	47	19,392
<b>Net book value, December 31, 2011</b>	37,759	34,314	497	977	—	1,963	75,510

	Distribution networks	Brand names	Patents	Software	Order backlog	Total
	\$	\$	\$	\$	\$	\$
<b>COST</b>						
<b>Balance, January 1, 2010</b>	49,709	29,812	1,184	—	—	80,705
Additions – acquisition of subsidiary	3,263	3,104	—	1,118	635	8,120
Exchange differences	(626)	(334)	(46)	(26)	(7)	(1,039)
<b>Balance, December 31, 2010</b>	<b>52,346</b>	<b>32,582</b>	<b>1,138</b>	<b>1,092</b>	<b>628</b>	<b>87,786</b>
<b>AMORTIZATION</b>						
<b>Balance, January 1, 2010</b>	11,763	—	501	—	—	12,264
Amortization charge for the year	2,970	—	83	—	365	3,418
Exchange differences	(224)	—	(16)	—	(1)	(241)
<b>Balance, December 31, 2010</b>	<b>14,509</b>	<b>—</b>	<b>568</b>	<b>—</b>	<b>364</b>	<b>15,441</b>
<b>Net book value, January 1, 2010</b>	<b>37,946</b>	<b>29,812</b>	<b>683</b>	<b>—</b>	<b>—</b>	<b>68,441</b>
<b>Net book value, December 31, 2010</b>	<b>37,837</b>	<b>32,582</b>	<b>570</b>	<b>1,092</b>	<b>264</b>	<b>72,345</b>

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

Intangible assets include patents acquired through business combinations, which have a remaining life of seven years. All brand names with a carrying amount of \$34,314 (December 31, 2010 – \$32,582, January 1, 2010 – \$29,812) have been qualified as indefinite useful life intangible assets, as the Company expects to maintain these brand names and currently no end point of the useful lives of these brand names can be determined. The Company assesses the assumption of an indefinite useful life at least

annually. For definite life intangibles, the Company assesses whether there are indicators of impairment at subsequent reporting dates as a triggering event for performing an impairment test.

Other significant intangible assets are goodwill (note 11) and the distribution network of the Company. The distribution network was acquired in past business combinations and reflects the Company's dealer network in North America and the dealer network of the Mepu operating division. The remaining amortization period for the distribution network ranges from 4 to 19 years.

As of the reporting date, the Company had no contractual commitments for the acquisition of intangible assets.

## 11. GOODWILL

	2011	2010
	\$	\$
<b>COST</b>		
<b>Balance, beginning of year</b>	<b>62,355</b>	52,187
Additions – acquisition of subsidiary	<b>3,087</b>	11,025
Exchange differences	<b>434</b>	(857)
<b>Balance, end of year</b>	<b>65,876</b>	62,355

## 12. IMPAIRMENT TESTING

For purposes of impairment testing, the Company determined that each of its seven operating divisions were CGUs as of its IFRS transition date. Under the IFRS 1 transition guidance, Ag Growth performed an impairment test as at January 1, 2010. Upon the acquisition of Franklin during 2010, Ag Growth reconsidered its CGUs and concluded that Wheatheart no longer met the CGU definition and management then reallocated the assets and goodwill on a relative fair value basis to the Applegate and Westfield CGUs.

Goodwill acquired through business combinations is allocated on a relative fair value basis to the CGUs that benefit from the acquisition. The Company performs its annual goodwill impairment test as at December 31 on all CGUs. The recoverable amount of the CGUs has been determined based on value in use for the year ended December 31, 2011 and fair value less costs to sell calculation as at January 1, 2010, the Transition Date, using cash flow projections covering a five-year period. The various pre-tax discount rates applied to the cash flow projections are between 11.8% and 17.1% (December 31, 2010 – 12.2% and 18.9%, January 1, 2010 – 14.3% and 19.8%) and cash flows beyond the five-year period are extrapolated using a 3% growth rate (December 31, 2010 – 3%, January 1, 2010 – 3%), which is management's estimate of long-term inflation and productivity growth in the industry and geographies in which it operates.

The Company's CGUs and goodwill and indefinite life intangible assets allocated thereto are as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
<b>Westfield</b>			
Goodwill	30,435	30,435	29,208
Intangible assets with indefinite lives	19,000	19,000	19,000
<b>Edwards</b>			
Goodwill	6,438	6,438	5,123
Intangible assets with indefinite lives	5,163	5,163	5,163
<b>Hi Roller</b>			
Goodwill	5,588	5,465	5,751
Intangible assets with indefinite lives	3,296	3,224	3,392
<b>Union Iron</b>			
Goodwill	8,199	8,018	8,437
Intangible assets with indefinite lives	2,193	2,144	2,257
<b>Tramco</b>			
Goodwill	7,450	7,286	—
Intangible assets with indefinite lives	2,360	2,308	—
<b>Other</b>			
Goodwill	7,766	4,713	3,668
Intangible assets with indefinite lives	2,302	743	—
<b>Total</b>			
Goodwill	65,876	62,355	52,187
Intangible assets with indefinite lives	34,314	32,582	29,812

### **Key assumptions used in valuation calculations**

The calculation of value in use or fair value less cost to sell for all the CGUs are most sensitive to the following assumptions:

- Gross margin;
- Discount rates;
- Market share during the budget period; and
- Growth rate used to extrapolate cash flows beyond the budget period.

#### ***Gross margins***

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

#### ***Discount rates***

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

#### ***Market share assumptions***

These assumptions are important because, as well as using industry data for growth rates (as noted below), management assesses how the CGU's position, relative to its competitors, might change over the forecast period.

#### ***Growth rate estimates***

Rates are based on published research and are primarily derived from the long-term CPI expectations for the markets in which Ag Growth operates. Management considers CPI to be a conservative indicator of the long-term growth expectations for the agricultural industry.

### **13. ASSETS HELD FOR SALE**

In 2010, Ag Growth transferred all production activities from its Lethbridge, Alberta facility to Nobleford, Alberta. Ag Growth concluded that the land and building in Lethbridge, Alberta, Canada met the definition of an asset held for sale. The carrying amounts of the assets as presented in the consolidated statement of financial position solely consist of the land and building. The land carrying value is \$146 as at December 31, 2011.

### **14. AVAILABLE-FOR-SALE INVESTMENT**

On December 22, 2009, the Company purchased two million common shares at \$1.00 per share in a private Canadian corporate farming organization ("Investco"). The Company's investment represents approximately 2.0% of the outstanding shares of Investco. At this point in time, management intends to hold the investment for an indefinite period of time.

In the year ended December 31, 2011, Investco completed a private placement of 22,193,921 common shares at \$1.40 per common share. The private placement included a large number of unrelated parties and increased Investco's outstanding common shares by approximately 40%. The private placement was determined to represent a quoted market price and as a result the Company assessed the fair value of its 2,000,000 common shares at \$1.40 per common share. Accordingly, the Company increased the value of its investment by \$800 with the offsetting amount recorded in other comprehensive income. As at December 31, 2011, given there has been no recent market activity, the \$2.8 million represents cost which is deemed to be the fair value carrying amount.

## 15. CASH AND CASH EQUIVALENTS/CHANGES IN NON-CASH WORKING CAPITAL

Cash and cash equivalents as at the date of the consolidated statement of financial position and for the purpose of the consolidated statement of cash flows are as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Cash at banks and on hand	6,839	11,201	41,110
Short-term deposits	—	23,780	67,984
<b>Total cash and cash equivalents</b>	<b>6,839</b>	<b>34,981</b>	<b>109,094</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

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

	2011	2010
	\$	\$
Accounts receivable	(9,607)	(9,664)
Inventory	(9,850)	(1,321)
Prepaid expenses and other assets	5,034	(5,248)
Accounts payable and accrued liabilities	(1,755)	2,046
Customer deposits	1,445	(2,868)
Provisions	280	748
	<b>(14,453)</b>	<b>(16,307)</b>

## 16. RESTRICTED CASH

Restricted cash of \$2,439 (2010 – \$1,860) consists of holdbacks related to the acquisition of Tramco (note 7), and Airlanco (note 6), \$885 of funds advanced to Ag Growth as collateral for a receivable from an end user of Ag Growth products and \$29 related to the long-term incentive plan (note 21). Subsequent to December 31, 2011, the \$885 receivable from the end user was collected and the restricted cash was released.

## 17. ACCOUNTS RECEIVABLE

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

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Total accounts receivable	50,188	39,019	25,571
Less allowance for doubtful accounts	(497)	(484)	(499)
<b>Total accounts receivable, net</b>	<b>49,691</b>	<b>38,535</b>	<b>25,072</b>
<b>Of which</b>			
Neither impaired nor past due	33,412	17,661	17,552
Not impaired and past the due date as follows:			
Within 30 days	9,356	7,231	3,457
31 to 60 days	2,761	7,044	927
61 to 90 days	957	3,295	795
Over 90 days	3,702	3,788	2,840
Less allowance for doubtful accounts	(497)	(484)	(499)
<b>Total accounts receivable, net</b>	<b>49,691</b>	<b>38,535</b>	<b>25,072</b>

Trade receivables assessed to be impaired are included in selling, general and administrative expenses in the period of the assessment. The movement in the Company's allowance for doubtful accounts for the periods ended December 31, 2011 and December 31, 2010 was as follows:

	2011	2010
	\$	\$
<b>Balance, beginning of year</b>	<b>484</b>	499
Additional provision recognized	<b>10</b>	113
Amounts written off during the period as uncollectible	<b>(1)</b>	(5)
Amounts recovered during the period	<b>34</b>	17
Unused provision reversed	<b>(33)</b>	(137)
Exchange differences	<b>3</b>	(3)
<b>Balance, end of year</b>	<b>497</b>	484

## 18. INVENTORY

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Raw materials	<b>37,159</b>	29,516	21,581
Finished goods	<b>27,399</b>	23,058	18,040
	<b>64,558</b>	52,574	39,621

Inventory is recorded at the lower of cost and net realizable value.

During the year ended December 31, 2011, no provisions (2010 – nil) were expensed through cost of goods sold. There were no write-downs of finished goods and no reversals of write-downs included in cost of goods sold during the year.

## 19. PROVISIONS

Provisions consist of the Company's warranty provision. A provision is recognized for expected claims on products sold based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year.

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns.

	2011	2010
	\$	\$
<b>Balance, beginning of year</b>	<b>1,942</b>	1,194
Costs recognized	<b>3,032</b>	2,971
Amounts charged against provision	<b>(2,752)</b>	(2,223)
<b>Balance, end of year</b>	<b>2,222</b>	1,942

## 20. EQUITY

### (a) Common shares

#### Authorized

Unlimited number of voting common shares without par value

#### Issued

12,411,620 common shares

	Number #	Amount \$
<b>Balance, January 1, 2010</b>	13,020,099	157,279
Purchase of common shares under LTIP	(167,900)	(6,032)
Purchase of common shares under normal course issuer bid	(674,600)	(8,057)
Settlement of LTIP obligation – vested shares	81,951	2,737
Settlement of SAIP obligation – vested shares	140,000	5,449
<b>Balance, December 31, 2010</b>	12,399,550	151,376
Purchase of common shares under LTIP (note 21(a))	(67,996)	(3,346)
Conversion of subordinated debentures	2,556	115
Settlement of LTIP obligation – vested shares (note 21(e))	77,510	2,894
<b>Balance, December 31, 2011</b>	12,411,620	151,039

The 12,411,620 common shares at December 31, 2011 are net of 134,376 common shares with a stated value of \$5,428 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

The 12,399,550 common shares at December 31, 2010 are net of 143,890 common shares with a stated value of \$5,027 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

**(b) Normal course issuer bid**

On November 17, 2011, Ag Growth commenced a normal course issuer bid for up to 994,508 common shares, representing 10% of the Company’s public float at the time. The normal course issuer bid will terminate on November 20, 2012 unless terminated earlier by Ag Growth. In the year ended December 31, 2011, no common shares were purchased under the normal course issuer bid.

On December 10, 2009, Ag Growth commenced a normal course issuer bid for up to 1,272,423 common shares, representing 10% of the Company’s public float at that time. The normal course issuer bid terminated on December 9, 2010. In the year ended December 31, 2010, Ag Growth purchased and cancelled 674,600 common shares under the normal course issuer bid for \$23,391.

**(c) Contributed surplus**

	2011	2010
	\$	\$
<b>Balance, beginning of year</b>	<b>6,121</b>	3,859
Equity-settled director compensation	<b>345</b>	227
Obligation under LTIP	<b>1,769</b>	4,279
Exercise price on vested SAIP awards	—	18
Settlement of LTIP obligation – vested shares	<b>(2,894)</b>	(2,262)
<b>Balance, end of year</b>	<b>5,341</b>	6,121

**(d) Accumulated other comprehensive income**

Accumulated other comprehensive income is comprised of the following:

**Cash flow hedge reserve**

The cash flow hedge reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date.

**Foreign currency translation reserve**

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

**Available-for-sale reserve**

The available-for-sale reserve contains the cumulative change in the fair value of available-for-sale investment. Gains and losses are reclassified to the consolidated statement of income when the available-for-sale investment is impaired or derecognized.

**(e) Dividends paid and proposed**

In the year ended December 31, 2011, the Company declared dividends of \$30,109 or \$2.40 per common share (2010 – \$26,854 or \$2.12 per common share). Ag Growth’s dividend policy is to pay cash dividends on or about the 30th of each month to shareholders of record on the last business day of the previous month and the Company’s current monthly dividend rate is \$0.20 per common share. Subsequent to December 31, 2011, the Company declared dividends of \$0.20 per common share on each of January 31, 2012 and February 28, 2012.

**(f) Shareholder protection rights plan**

On December 20, 2010, the Company’s Board of Directors adopted a Shareholders’ Protection Rights Plan (the “Rights Plan”). Specifically, the Board of Directors has implemented the Rights Plan by authorizing the issuance of one right (a “Right”) in respect of each common share (the “Common Shares”) of the Company outstanding at the close of business on December 20, 2010 (the “Record Time”). In addition, the Board of Directors authorized the issuance of one Right in respect of each additional Common Share issued from treasury after the Record Time.

If a person or a Company, acting jointly or in concert, acquires (other than pursuant to an exemption available under the Rights Plan) beneficial ownership of 20% or more of the Common Shares, Rights (other than those held by such acquiring person which will become void) will separate from the Common Shares and permit the holder thereof to purchase that number of Common Shares having an aggregate market price (as determined in accordance with the Rights Plan) on the date of consummation or occurrence of such acquisition of

Common Shares equal to four times the exercise price of the Rights for an amount in cash equal to the exercise price. The exercise price of the Rights pursuant to the Rights Plan is \$150 per Right.

## **21. SHARE-BASED COMPENSATION PLANS**

### **(a) Long-term incentive plan (“LTIP”)**

The LTIP is a compensation plan that awards common shares to key management based on the Company’s operating performance. Pursuant to the LTIP, the Company establishes the amount to be allocated to management based upon the amount by which distributable cash, as defined in the LTIP, exceeds a predetermined threshold. The service period commences on January 1 of the year the award is generated and ends at the end of the fiscal year.

The award vests on a graded scale over an additional three-year period from the end of the respective performance year. The LTIP provides for immediate vesting in the event of retirement, death, termination without cause or in the event the participant becomes disabled. The cash awarded under the plan formula is used to purchase Ag Growth common shares at market prices. All vested awards are settled with participants in common shares purchased by the administrator of the plan and there is no cash settlement alternative.

The amount owing to participants is recorded as an equity award in contributed surplus as the award is settled with participants with treasury shares purchased in the open market. The expense is recorded in the different consolidated statement of income lines by function depending on the role of the respective management member. For the year ended December 31, 2011, Ag Growth expensed \$1,769 (2010 – \$3,570) for the LTIP. Additionally, there is \$29 in restricted cash related to the LTIP.

During the year ended December 31, 2011, the administrator purchased 67,996 common shares (2010 – 167,900 common shares) in the market for \$3,346 (2010 – \$6,032). The fair value of this share-based payment equals the share price as of the respective measurement date as dividends related to the shares in the administrated fund are paid annually to the LTIP participants.

### **(b) Share award incentive plan (“SAIP”)**

The Company has a share award incentive plan that authorizes the Directors to grant awards (“Share Awards”) to employees or officers of Ag Growth or any affiliates of the Company or

consultants or other service providers to the Company and its affiliates (“Service Providers”). Share Awards may not be granted to non-management Directors. Under the terms of the SAIP, any Service Provider may be granted Share Awards. Each Share Award will entitle the holder to be issued the number of common shares designated in the Share Award, upon payment of an exercise price of \$0.10 per common share.

The shareholders reserved for issuance 220,000 common shares, subject to adjustment in lieu of dividends, if applicable, and no additional awards may be granted without shareholder approval. As at December 31, 2011, 220,000 (2010 – 220,000) Share Awards have been granted and 40,000 (2010 – 80,000) remain outstanding.

During the year ended December 31, 2011, 40,000 Share Awards vested and were exercised, at which time the participants received a cash payment of \$1,998. On January 1, 2010, 73,333 Share Awards vested and were exercised, at which time common shares of the Company were issued for \$2,586. On October 15, 2010, the Company announced the passing of its Chief Executive Officer. Upon his passing, 66,667 Share Awards vested and were exercised, at which time common shares of the Company were issued for \$2,863, of which \$2,411 had been expensed prior to October 15, 2010 and included in the SAIP liability. Subsequent to December 31, 2011, the remaining 40,000 Share Awards vested, at which time the participants received a cash payment of \$1,490. For the year ended December 31, 2011, Ag Growth recorded income of \$76 (2010 – expense of \$2,707) for the Share Awards.

### **(c) Directors’ Deferred Compensation Plan (“DDCP”)**

Under the DDCP, every Director receives a fixed base retainer fee, an attendance fee for meetings and a committee chair fee, if applicable, and a minimum of 20% of the total compensation must be taken in common shares. A Director will not be entitled to receive the common shares he or she has been granted until a period of three years has passed since the date of grant or until the Director ceases to be a Director, whichever is earlier. The Directors’ common shares are fixed based on the fees eligible to him for the respective period and his decision to elect for cash payments for dividends related to the common shares; therefore, the Director’s remuneration under the DDCP vests directly in the respective service period. The three-year period (or any shorter period until a Director ceases to be a Director) qualifies only as a waiting period to receive the vested common shares.



For the years ended December 31, 2011 and 2010, the Directors elected to receive the majority of their remuneration in common shares. For the year ended December 31, 2011, an expense of \$345 (2010 – \$227) was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 35,000, subject to adjustment in lieu of dividends, if applicable. For the year ended December 31, 2011, 9,161 common shares were granted under the DDCP and as at December 31, 2011, a total of 23,144 common shares had been granted under the DDCP and no common shares had been issued.

**(d) Stock option plan**

On June 3, 2009, the shareholders of Ag Growth approved a stock option plan (the “Option Plan”) under which options may be granted to officers, employees and other eligible service providers in order to allow these individuals an opportunity to increase their proprietary interest in Ag Growth’s long-term success.

The Company’s Board of Directors or a Committee thereof shall administer the Option Plan and designate the individuals to whom options may be granted and the number of common shares to be optioned to each. The maximum number of common shares issuable on exercise of outstanding options at any time may not exceed 7.5% of the aggregate number of issued and outstanding common shares, less the number of common shares issuable pursuant to all other security-based compensation agreements. The number of common shares reserved for issuance to any one individual may not exceed 5% of the issued and outstanding common shares.

Options will vest and be exercisable as to one-third of the total number of common shares subject to the options on each of the first, second and third anniversaries of the date of the grant. The exercise price of the options shall be fixed by the Board of Directors or a Committee thereof on the date of the grant and may not be less than the market price of the common shares on the date of the grant. The options must be exercised within five years of the date of the grant.

As at December 31, 2011, a total of 935,325 options (2010 - 970,319) are available for grant. No options have been granted as at December 31, 2011.

**(e) Summary of expenses recognized under share-based payment plans**

For the year ended December 31, 2011, an expense of \$2,038 (2010 – \$6,504) was recognized for employee and Director services rendered.

The total carrying amount of the liability for the SAIP as of December 31, 2011 was \$1,495 (2010 – \$3,574). There have been no cancellations or modifications to any of the plans during the years ended December 31, 2011 or December 31, 2010.

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

	2011 Shares	2010 Shares
	#	#
<b>Outstanding, beginning of year</b>	<b>80,00</b>	220,000
Exercised	<b>(40,000)</b>	(140,000)
<b>Outstanding, end of year</b>	<b>40,000</b>	80,000

The exercise price on all SAIP awards is \$0.10 per common share. All outstanding options under the SAIP as of December 31, 2011 vested and were exercised on January 1, 2012.

A summary of the status of the shares under the LTIP is presented below:

	2011 Shares	2010 Shares
	#	#
<b>Outstanding, beginning of year</b>	<b>143,890</b>	57,941
Vested	<b>(77,510)</b>	(81,951)
Granted	<b>67,996</b>	167,900
<b>Outstanding, end of year</b>	<b>134,376</b>	143,890

The following table lists the inputs to the models used for the SAIP for the years ended December 31, 2011 and December 31, 2010:

	2011	2010
	\$	\$
Dividend yield (%)	0	0
Expected volatility (%)	26.88	23.20
Risk-free interest rate (%)	1	1
Expected life of share options (years)	1	1
Weighted average share price (\$)	37.48	50.07
Model used	Black-Scholes	Black-Scholes

The fair value per option at December 31, 2011 was \$37.38.

The dividend yield was set to 0% for the calculation of the option value, as the Share Award holders already receive during the period between grant date and vesting date of the Share Award the same dividend as all actual shareholders. The expected life of the Share Awards is the period between the reporting date and the vesting date, as the Share Awards can be exercised by the holders only at the vesting date. The expected volatility reflects the assumption that the historical volatility over a period similar to the Share Awards is indicative of future trends, which may also not necessarily be the actual outcome.

#### (f) Accelerated vesting and death benefits

On October 15, 2010, Ag Growth announced the passing of its Chief Executive Officer. Upon his passing, all previously unvested share-based compensation vested immediately, certain death benefits became payable to his estate and the Company became entitled to proceeds of \$3,000 related to an insurance policy, which was recorded in prepaid expenses and other assets as at December 31, 2010. The insurance proceeds were received in 2011.

## 22. LONG-TERM DEBT AND OBLIGATIONS FROM FINANCE LEASES

	Interest rate %	Maturity	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Current portion of interest-bearing loans and borrowings</b>					
Obligations under finance leases	6.5	2011 – 2012	131	432	—
Nordea equipment loan (Euro denominated)	2.0	2013	—	112	—
GMAC loans	0.0	2011 and 2014	16	16	16
<b>Total current portion of interest-bearing loans and borrowings</b>			<b>147</b>	560	16
<b>Non current interest-bearing loans and borrowings</b>					
Series A secured notes (U.S. dollar denominated)	6.8	2016	25,425	24,865	26,165
Term debt (U.S. dollar denominated)	3.8	2012	10,709	—	—
Nordea equipment loan (Euro denominated)	2.0	2013	—	196	—
GMAC loans	0.0	2011 and 2014	3	15	31
Obligations under finance leases	6.5	2011 – 2012	—	138	—
<b>Total non-current interest-bearing loans and borrowings</b>			<b>36,137</b>	25,214	26,196
			<b>36,284</b>	25,774	26,212
Less deferred financing costs			313	558	793
<b>Total interest-bearing loans and borrowings</b>			<b>35,971</b>	25,216	25,419

### (a) Bank indebtedness

Ag Growth has operating facilities of \$10 million and U.S. \$2.0 million. The facilities bear interest at a rate of prime plus 0.5% to prime plus 1.5% per annum based on performance calculations. The effective interest rate during the year ended December 31, 2011 on Ag Growth's Canadian dollar term debt was 3.5% (2010 – 3.1%), and on its U.S. dollar term debt was 3.8% (2010 – 3.8%). As at December 31, 2011 and December 31, 2010, there were no amounts outstanding under these facilities. The facilities mature October 29, 2012.

Collateral for the operating facilities rank pari passu with the Series A secured notes and include a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

### (b) Long-term debt

The Series A secured notes were issued on October 29, 2009. The non-amortizing notes bear interest at 6.8% payable quarterly and mature on October 29, 2016. The Series A secured notes are denominated in U.S. dollars. Collateral for the Series A secured notes and term loans rank pari passu and include a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

Term loans bear interest at rates of prime plus 0.5% to prime plus 1.5% based on performance calculations. As at December 31, 2011, term loans of U.S. \$10,530 were outstanding and there were no term loans outstanding at December 31, 2010. Ag Growth's credit facility provides for term loans of up to \$38,000 and U.S. \$20,500 and matures October 29, 2012. In the event the credit facility is not renewed, all outstanding amounts become repayable in quarterly installments beginning on January 31, 2014.

Subsequent to December 31, 2011, the Company renewed its credit facility on substantially the same terms with its existing lenders. The renewed credit facility includes a \$25 million accordion feature, bears interest at rates of prime plus 0.0% to prime plus 1.0% based on performance calculations and matures on the earlier of March 8, 2016 or three months prior to maturity date of convertible unsecured subordinated debentures, unless refinanced on terms acceptable to the Lenders.

The Nordea equipment loan is denominated in Euros, bears interest at 2% and was fully repaid during the year ended December 31, 2011.

GMAC loans bear interest at 0% and mature in 2014. The vehicles financed are pledged as collateral.

### (c) Covenants

Ag Growth is subject to certain financial covenants in its credit facility agreements, which must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require Ag Growth to maintain a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of less than 2.5 and to provide debt service coverage of a minimum of 1.0. As at December 31, 2011 and December 31, 2010, Ag Growth was in compliance with all financial covenants.

## 23. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

	2011	2010	January 1 2010
	\$	\$	\$
Principal amount	114,885	115,000	115,000
Equity component	(7,475)	(7,475)	(7,475)
Accretion	2,770	1,438	185
Financing fees, net of amortization	(2,978)	(3,823)	(4,603)
<b>Convertible unsecured subordinated debentures</b>	<b>107,202</b>	105,140	103,107

On October 27, 2009, the Company issued convertible unsecured subordinated debentures in the aggregate principal amount of \$100 million, and on November 6, 2009 the underwriters exercised in full their over-allotment option and the Company issued an additional \$15 million of debentures (the "Debentures"). The net proceeds of the offering, after payment of the underwriters' fee of \$4.6 million and expenses of the offering of \$0.5 million, were approximately \$109.9 million. The Debentures were issued at a price of \$1,000 per Debenture and bear interest at an annual rate of 7.0% payable semi-annually on June 30 and December 31 in each year commencing June 30, 2010. The maturity date of the Debentures is December 31, 2014.

Each Debenture is convertible into common shares of the Company at the option of the holder at any time on the earlier of the maturity date and the date of redemption of the Debenture, at a conversion price of \$44.98 per common share being a conversion rate of approximately 22.2321 common shares per \$1,000 principal amount of Debentures. During the year ended December 31, 2011, holders of 115 Debentures exercised the conversion option and were issued 2,556 common shares. As at December 31, 2011, Ag Growth has reserved 2,554,136 common shares for issuance upon conversion of the Debentures.

The Debentures are not redeemable before December 31, 2012. On and after December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On and after December 31, 2013, the Debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligations to pay interest on the Debentures by delivering common shares. The Company does not expect to exercise the option to satisfy its obligations to pay interest by delivering common shares and as a result the potentially dilutive impact has been excluded from the calculation of fully diluted earnings per share (note 30). The number of any shares issued will be determined based on market prices at the time of issuance.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the Debentures, the Company recorded a liability of \$107,525, less related offering costs of \$4,735.

The liability component has been accreted using the effective interest rate method, and during the year ended December 31, 2011, the Company recorded accretion of \$1,332 (2010 – \$1,253), non-cash interest expense related to financing costs of \$845 (2010 – \$780) and interest expense on the 7% coupon of \$8,043 (2010 – \$8,050). The estimated fair value of the holder's option to convert Debentures to common shares in the amount of \$7,475 has been separated from the fair value of the liability and is included in shareholders' equity, net of income tax of \$2,041, and its pro rata share of financing costs of \$329.

#### 24. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Trade payables	8,212	7,323	4,074
Other payables	4,860	7,207	2,418
Personnel-related accrued liabilities	7,176	6,687	4,929
Accrued outstanding service invoices	750	587	330
Other	1,266	819	985
	<b>22,264</b>	22,623	12,736

Trade payables and other payables are non-interest bearing and are normally settled on 30- or 60-day terms. Personnel-related accrued liabilities include primarily vacation accruals, bonus accruals and overtime benefits. For explanations on the Company's credit risk management processes, refer to note 27.



## 25. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2011 and 2010 are as follows:

<b>Consolidated statement of income</b>	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Current tax expense</b>		
Current income tax charge	3,910	5,627
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	5,743	8,049
<b>Income tax expense reported in the consolidated statement of income</b>	<b>9,653</b>	<b>13,676</b>
<b>Consolidated statement of comprehensive income</b>		
	\$	\$
<b>Deferred tax related to items charged or credited directly to other comprehensive income during the period</b>		
Unrealized gain on derivatives and available-for-sale investment	(1,490)	(1,034)
Exchange differences on translation of foreign operations	214	(540)
<b>Income tax charged directly to other comprehensive income</b>	<b>(1,276)</b>	<b>(1,574)</b>

A reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the year ended December 31, 2011 and 2010 is as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Accounting profit before income tax</b>	<b>34,176</b>	44,437
At the Company's statutory income tax rate of 28.05% (2010 – 29.54%)	<b>9,586</b>	13,127
Tax rate changes	<b>265</b>	(520)
Recognition of deferred tax assets	<b>(91)</b>	—
Foreign rate differential	<b>901</b>	1,252
Permanent differences and others	<b>(1,008)</b>	(183)
<b>At the effective income tax rate 28.24% (2010 – 30.78%)</b>	<b>9,653</b>	13,676

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

	Consolidated statement of financial position			Consolidated statement of income	
	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010	2011	2010
	\$	\$	\$	\$	\$
Inventories	(200)	(192)	(120)	8	72
Property, plant and equipment and other assets	(10,145)	(9,112)	(6,757)	1,033	(475)
Intangible assets	(12,900)	(13,044)	(10,154)	(144)	652
Deferred financing costs	(63)	21	165	84	144
Accruals and long-term provisions	1,642	748	452	(894)	(296)
Tax loss carryforwards expiring between 2016 to 2027	16,809	21,871	29,736	5,062	7,865
Investment tax credit carryforward expiring between 2025 and 2030	4,627	4,763	4,710	136	(53)
Canadian exploration expenses	29,157	29,157	29,157	—	—
Capitalized development expenditures	(465)	—	—	465	—
Convertible debentures	(1,279)	(1,628)	(1,984)	(349)	(356)
SAIP liability	397	977	1,690	580	713
Equity impact LTIP	1,283	1,253	989	(30)	(264)
Foreign exchange gains	—	6	(487)	6	(493)
Other comprehensive income	269	(1,221)	(2,255)	—	—
Exchange difference on translation of foreign operations	—	—	—	(214)	540
<b>Deferred tax expense</b>				<b>5,743</b>	<b>8,049</b>
<b>Net deferred tax assets</b>	<b>29,132</b>	<b>33,599</b>	<b>45,142</b>		
<b>Reflected in the statement of financial position as follows</b>					
Deferred tax assets	38,092	42,063	47,356		
Deferred tax liabilities	(8,960)	(8,464)	(2,214)		
<b>Deferred tax assets, net</b>	<b>29,132</b>	<b>33,599</b>	<b>45,142</b>		

<b>Reconciliation of deferred tax assets, net</b>	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Opening balance as at January 1</b>	<b>33,599</b>	45,142
Deferred tax expense during the period recognized in profit or loss	<b>(5,743)</b>	(8,049)
Deferred tax income during the period recognized in other comprehensive income	<b>1,276</b>	1,574
Deferred tax liabilities acquired on acquisitions	—	(5,068)
<b>Opening balance as at December 31</b>	<b>29,132</b>	33,599

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences, loss carryforwards and investment tax credits become deductible. Based on the analysis of taxable temporary differences and future taxable income, the management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities. Accordingly, the Company has recorded a deferred tax asset for all deductible temporary differences as of the reporting date and as at December 31, 2010.

The Company has recorded tax losses related to its Finnish operations of \$1,413 Euros. Based on historical results and an expectation of future profits, a deferred tax asset has been recognized for these losses as it is probable they will be utilized.

At December 31, 2011, there was no recognized deferred tax liability (2010 – nil; January 1, 2010 – nil) for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which a deferred tax asset has not been recognized, aggregate to \$622 (December 31, 2010 – \$622; January 1, 2010 – nil).

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of federal and provincial

income tax rules and regulations, and judgments as to their interpretation and application to Ag Growth's specific situation. The amount and timing of reversals of temporary differences will also depend on Ag Growth's future operating results, acquisitions and dispositions of assets and liabilities. The business and operations of Ag Growth are complex and Ag Growth has executed a number of significant financings, acquisitions, reorganizations and business combinations over the course of its history including the conversion to a corporate entity. The computation of income taxes payable as a result of these transactions involves many complex factors, as well as Ag Growth's interpretation of and compliance with relevant tax legislation and regulations. While Ag Growth believes that its tax filing positions are probable to be sustained, there are a number of tax filing positions including in respect of the conversion to a corporate entity that may be the subject of review by taxation authorities. Therefore, it is possible that additional taxes could be payable by Ag Growth and the ultimate value of Ag Growth's income tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on these consolidated financial statements.

There are no income tax consequences to the Company attached to the payment of dividends in either 2011 or 2010 by the Company to its shareholders.

## **26. POST-RETIREMENT BENEFIT PLANS**

Ag Growth contributes to group retirement savings plans subject to maximum limits per employee. Ag Growth accounts for such defined contributions as an expense in the period in which the contributions are required to be made. The expense recorded during the year ended December 31, 2011 was \$1,925 (2010 – \$1,470). Ag Growth expects to contribute \$2,000 for the full year 2012.

Ag Growth accounts for one plan covering substantially all of its employees of the Mepu division as a defined contribution plan, although it does provide the employees with a defined benefit (average pay) pension. The plan qualifies as a multi-employer plan and is administered by the Government of Finland. Ag Growth is not able to obtain sufficient information to account for the plan as a defined benefit plan.

## 27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### (a) Management of risks arising from financial instruments

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

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

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

#### **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Components of market risk to which Ag Growth is exposed are discussed below. Financial instruments affected by market risk include trade accounts receivable and payable, available-for-sale investment and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at December 31, 2011, December 31, 2010 and January 1, 2010.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant. The analyses exclude the impact of movements in market variables on the carrying value of provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant consolidated statement of income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2011 and December 31, 2010, including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at December 31, 2011 for the effects of the assumed underlying changes.

#### **Foreign currency risk**

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

A significant part of the Company's sales are transacted in U.S. dollars and as a result fluctuations in the rate of exchange between the U.S. and Canadian dollar can have a significant effect on the Company's cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, Ag Growth enters into foreign exchange forward contracts

and denominates a portion of its debt in U.S. dollars. As at December 31, 2011, Ag Growth's U.S. dollar denominated debt totalled U.S. \$35.5 million (2010 – \$25.0 million) and the Company has entered into the following foreign exchange forward contracts to sell U.S. dollars in order to hedge its foreign exchange risk on revenue:

<b>Settlement dates</b>	<b>Face value</b>	<b>Average rate</b>
	U.S. \$	Cdn \$
January – December 2012	60,000	\$0.99

The Company enters into foreign exchange forward contracts to mitigate foreign currency risk relating to certain cash flow exposures. The hedged transactions are expected to occur within a maximum 24-month period. The Company's foreign exchange forward contracts reduce the Company's risk from exchange movements because gains and losses on such contracts offset gains and losses on transactions being hedged. The Company's exposure to foreign currency changes for all other currencies is not material.

Ag Growth's sales denominated in U.S. dollars for the year ended December 31, 2011 were U.S. \$214 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. \$132 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$21.4 million increase or decrease in sales and a total increase or decrease of \$13.2 million in its cost of goods sold and its selling, general and administrative expenses. In relation to Ag Growth's foreign exchange hedging contracts, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$3.6 million increase or decrease in the foreign exchange gain and a \$7.0 million increase or decrease to other comprehensive income.

The counterparty to the contracts are three multinational commercial banks and therefore credit risk of counterparty non-performance is remote. Realized gains or losses are included in net earnings and for the year ended December 31, 2011 the Company realized a gain on its foreign exchange contracts of \$5.0 million (2010 – \$8.7 million).

The open foreign exchange forward contracts as at December 31, 2011 are as follows:

<b>Notional Canadian dollar equivalent</b>			
<b>Notional amount of currency sold</b>	<b>Contract amount</b>	<b>Cdn \$ equivalent</b>	<b>Unrealized loss</b>
U.S. \$	\$	\$	\$
60,000	0.9905	59,430	1,828

The open foreign exchange forward contracts as at December 31, 2010 are as follows:

<b>Notional Canadian dollar equivalent</b>			
<b>Notional amount of currency sold</b>	<b>Contract amount</b>	<b>Cdn \$ equivalent</b>	<b>Unrealized gain</b>
U.S. \$	\$	\$	\$
55,000	1.08	59,400	4,200

The terms of the foreign exchange forward contracts have been negotiated to match the terms of the commitments. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the consolidated statement of income.

The cash flow hedges of the expected future sales were assessed to be highly effective and a net unrealized loss of \$1,828, with a deferred tax asset of \$481 relating to the hedging instruments, is included in accumulated other comprehensive income.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as Ag Growth regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. Ag Growth's Series A secured notes and convertible unsecured subordinated debentures outstanding at December 31, 2011, December 31, 2010 and January 1, 2010 are at a fixed rate of interest.

As at December 31, 2011, the Company had outstanding \$10,530 of U.S. dollar term debt at a floating rate of interest. A 10% increase or decrease in the Company's interest rate would result in an increase or decrease of \$7 to long-term interest expense.

***Credit risk***

Credit risk is the risk that a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. A substantial portion of Ag Growth's accounts receivable are with customers in the agriculture industry and are subject to normal industry credit risks. This credit exposure is mitigated through the use of credit practices that limit transactions according to the customer's credit quality and due to the accounts receivable being spread over a large number of customers. Ag Growth establishes a reasonable allowance for non-collectible amounts with this allowance netted against the accounts receivable on the consolidated statement of financial position.

Accounts receivable and long-term receivables are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. The Company regularly monitors customers for changes in credit risk. Trade receivables from international customers are often insured for events of non-payment through third-party export insurance. In cases where the credit quality of a customer does not meet the Company's requirements, a cash deposit is received before goods are shipped.

At December 31, 2011, the Company had two customers (December 31, 2010 – two customers, January 1, 2010 – four customers) that accounted for approximately 14% (December 31, 2010 – 30%, January 1, 2010 – 32%) of all receivables owing. The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Company does not hold collateral as security.

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

***Liquidity risk***

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



The table below summarizes the undiscounted contractual payments of the Company's financial liabilities as at December 31, 2011:

<b>December 31, 2011</b>	<b>Total</b>	<b>0 – 6 months</b>	<b>6 – 12 months</b>	<b>12 – 24 months</b>	<b>2 – 4 years</b>	<b>After 4 years</b>
	\$	\$	\$	\$	\$	\$
Bank debt (includes interest)	45,497	1,073	1,073	2,133	14,351	26,867
Trade and other payables	24,486	24,486	—	—	—	—
Finance lease obligations	131	66	65	—	—	—
Dividends payable	2,509	2,509	—	—	—	—
Convertible unsecured subordinated debentures (include interest)	139,011	4,021	4,021	8,042	122,927	—
Acquisition price, transaction and financing costs payable	1,938	1,429	509	—	—	—
<b>Total financial liability payments</b>	<b>213,572</b>	<b>33,584</b>	<b>5,668</b>	<b>10,175</b>	<b>137,278</b>	<b>26,867</b>

<b>December 31, 2010</b>	<b>Total</b>	<b>0 – 6 months</b>	<b>6 – 12 months</b>	<b>12 – 24 months</b>	<b>2 – 4 years</b>	<b>After 4 years</b>
	\$	\$	\$	\$	\$	\$
Bank debt (includes interest)	35,225	912	912	1,824	3,613	27,964
Trade and other payables	24,565	24,565	—	—	—	—
Finance lease obligations	570	226	226	118	—	—
Dividends payable	2,509	2,509	—	—	—	—
Convertible unsecured subordinated debentures (include interest)	147,200	4,025	4,025	8,050	131,100	—
Acquisition price, transaction and financing costs payable	11,994	11,994	—	—	—	—
<b>Total financial liability payments</b>	<b>222,063</b>	<b>44,231</b>	<b>5,163</b>	<b>9,992</b>	<b>134,713</b>	<b>27,964</b>

**(b) Fair value**

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>						
Held-for-trading						
Derivative instruments	—	—	4,200	4,200	9,500	9,500
Loans and receivables						
Cash and cash equivalents	6,839	6,839	34,981	34,981	109,094	109,094
Cash held in trust	—	—	822	822	—	—
Restricted cash	2,439	2,439	1,860	1,860	—	—
Accounts receivable	49,691	49,691	38,535	38,535	25,072	25,072
<b>Financial liabilities</b>						
Other financial liabilities						
Interest-bearing loans and borrowings	36,153	39,593	25,204	28,171	26,212	26,338
Trade and other payables	24,486	24,486	24,565	24,565	13,930	13,930
Finance lease obligations	131	131	570	570	—	—
Dividends payable	2,509	2,509	2,509	2,509	2,224	2,224
Acquisition price, transaction and financing costs payable	1,938	1,938	11,994	11,994	1,028	1,028
Derivative instruments	1,828	1,828	—	—	—	—
Convertible unsecured subordinated debentures	107,202	107,671	105,140	116,231	103,107	106,400

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

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

- Cash and cash equivalents, cash held in trust, restricted cash, accounts receivable, dividends payable, finance lease obligations, acquisition price, transaction and financing costs payable, accounts payable and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and one option embedded in a convertible debt agreement. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

### (c) Fair value (“FV”) hierarchy

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

#### Level 1

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

#### Level 2

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

#### Level 3

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

The FV hierarchy of financial instruments measured at fair value on the consolidated statement of financial position is as follows:

	December 31, 2011			December 31, 2010		
	Level 1 \$	Level 2 \$	Level 3 \$	Level 1 \$	Level 2 \$	Level 3 \$
<b>Financial assets</b>						
Cash and cash equivalents	6,839	—	—	34,981	—	—
Cash held in trust	—	—	—	822	—	—
Derivative instruments	—	—	—	—	4,200	—
Restricted cash	2,439	—	—	1,860	—	—

During the reporting periods ended December 31, 2011 and December 31, 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

At December 31, 2011, Ag Growth has \$2,439 of restricted cash, which is classified as a current asset (note 16).

Interest from financial instruments is recognized in finance costs and finance income. Foreign currency and impairment reversal impacts for loans and receivables are reflected in other income (expense).

## 28. CAPITAL DISCLOSURE AND MANAGEMENT

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's capital management objectives have remained unchanged from the prior year. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities and as at December 31, 2011 and December 31, 2010, all of these covenants were complied with.

Ag Growth monitors its capital structure using non-IFRS financial metrics including net debt to EBITDA for the immediately preceding 12-month period and net debt to shareholders' equity. Ag Growth defines net debt as long-term debt plus the liability component of Debentures, less cash and cash equivalents.

Ag Growth's optimal capital structure targets to maintain its net debt to EBITDA ratio at levels below 2.5, after taking into consideration the impacts of industry cyclicalities and acquisitions.

The table below calculates the ratio based on EBITDA achieved in the previous 12 months:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Net debt	<b>136,187</b>	94,677	19,416
EBITDA	<b>56,038</b>	66,200	60,680
Ratio	<b>2.43 times</b>	1.43 times	0.32 times

Ag Growth's optimal capital structure targets to maintain its net debt to shareholders' equity ratio at levels below 1.0, after taking into consideration the impacts of industry cyclicalities and acquisitions:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Net debt	<b>136,187</b>	94,677	19,416
Shareholders' equity	<b>202,159</b>	210,294	231,395
Ratio	<b>0.67 times</b>	0.45 times	0.08 times

## 29. RELATED PARTY DISCLOSURES

### Relationship between parent and subsidiaries

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

### Other relationships

Burnet, Duckworth & Palmer LLP (“BDP”) provides legal services to the Company and a Director of Ag Growth is a partner of BDP. The total cost of these legal services was \$0.4 million during the year ended December 31, 2011 (2010 – \$0.1 million). Included in accounts payable and accrued liabilities as at December 31, 2011 is \$0.5 million (2010 – \$0.1 million) owing to BDP. These transactions are measured at the exchange amount and were incurred during the normal course of business.

### Compensation of key management personnel of Ag Growth

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

	2011	2010
	\$	\$
Short-term employee benefits	85	73
Contributions to defined contribution plans	165	122
Salaries	4,526	3,553
Accelerated vesting and death benefits	—	2,549
Share-based payments	2,038	6,504
<b>Total compensation paid to key management personnel</b>	<b>6,814</b>	<b>12,801</b>

### Key management interests in an employee incentive plan

Share Awards held by key management personnel under the SAIP have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price \$	December 31, 2011	December 31, 2010	January 1, 2010
			Number outstanding #	Number outstanding #	Number outstanding #
2007	January 1, 2010, 2011 and 2012	0.10	40,000	80,000	220,000

Key management employees have been granted the following LTIP awards for the different vesting dates without any exercise price:

Issue date	Expiry date	Shares outstanding		
		December 31, 2011 #	December 31, 2010 #	January 1, 2010 #
2007	2009 – 2011	—	17,482	46,933
2008	2010 – 2012	2,675	5,352	7,339
2009	2011 – 2013	80,704	121,056	—
2010	2012 – 2014	50,997	—	—
		<b>134,376</b>	143,890	54,272

### 30. EARNINGS PER SHARE

Net earnings per share is based on the consolidated net earnings for the period divided by the weighted average number of shares outstanding during the period. Diluted earnings per share are computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents.

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

	December 31 2011	December 31 2010
	\$	\$
Net profit attributable to shareholders for basic and diluted earnings per share	<b>24,523</b>	30,761
Basic weighted average number of shares	<b>12,423,173</b>	12,675,342
Dilutive effect of DDCP	<b>16,719</b>	10,593
Dilutive effect of LTIP	<b>122,463</b>	142,437
Diluted weighted average number of shares	<b>12,562,355</b>	12,828,372
Basic earnings per share	<b>1.97</b>	2.43
Diluted earnings per share	<b>1.95</b>	2.40

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

The convertible unsecured subordinated debentures were excluded from the calculation of the above diluted net earnings per share because their effect is anti-dilutive.

### 31. REPORTABLE BUSINESS SEGMENT

The Company is managed as a single business segment that manufactures and distributes grain handling, storage and conditioning equipment. The Company determines and presents business segments based on the information provided internally to the CEO, who is Ag Growth's Chief Operating Decision Maker ("CODM"). When making resource allocation decisions, the CODM evaluates the operating results of the consolidated entity.

All segment revenue is derived wholly from external customers and as the Company has a single reportable segment, inter-segment revenue is zero.

	Revenues		Property, plant and equipment, goodwill, intangible assets and available-for-sale investment	
	2011	2010	2011	2010
	\$	\$	\$	\$
Canada	<b>63,746</b>	57,971	<b>152,411</b>	148,108
United States	<b>187,645</b>	174,489	<b>64,787</b>	57,166
International	<b>54,541</b>	36,807	<b>10,422</b>	10,448
	<b>305,932</b>	269,267	<b>227,620</b>	215,722

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

### 32. COMMITMENTS AND CONTINGENCIES

#### (a) Contractual commitment for the purchase of property, plant and equipment

As of the reporting date, the Company has entered into commitments to purchase property, plant and equipment of \$1.5 million.

#### (b) Letters of credit

As at December 31, 2011, the Company has outstanding letters of credit in the amount of \$1,987 (2010 – \$642).

#### (c) Operating leases

The Company leases office and manufacturing equipment, warehouse facilities and vehicles under operating leases with minimum aggregate rent payable in the future as follows:

	\$
Within one year	657
After one year but not more than five years	1,857
	2,514

These leases have a life of between one and five years with no renewal options included in the contracts.

During the year ended December 31, 2011, the Company recognized an expense of \$943 (2010 – \$1,273) for leasing contracts. This amount relates only to minimum lease payments.

#### (d) Finance leases

The Company has finance leases for various items of manufacturing equipment. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	December 31, 2011	December 31, 2010
	Minimum lease payments	Minimum lease payments
	\$	\$
Within one year	131	432
After one year but not more than five years	—	138
Total minimum lease payments	131	570
Less amount representing finance charges	4	23
<b>Present value of minimum lease payments</b>	<b>127</b>	<b>547</b>

The leased equipment is pledged as collateral. Interest expense related to obligations under capital leases was \$23 for the year ended December 31, 2011 (2010 – nil).

#### (e) Legal actions

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

### **33. EXPLANATION OF TRANSITION TO IFRS**

The Company's consolidated annual financial statements were previously prepared in accordance with Canadian GAAP.

The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements prepared in accordance with IFRS and were prepared as described in note 3, including application of IFRS 1.

IFRS 1 also requires that comparative financial information is provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters.

#### **Elected exemptions from full retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied by the Company are described below.

##### ***(a) Business combinations***

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the Transition Date.

##### ***(b) Share-based payments***

The Company has elected to retrospectively apply the provisions of IFRS 2, *Share-based Payments* ("IFRS 2") only to (i) equity instruments granted after November 7, 2002 that are unvested at the Transition Date, and (ii) liability instruments arising from share-based payment transactions that are outstanding at the Transition Date.

##### ***(c) Foreign exchange***

Cumulative currency translation differences for all foreign operations are deemed to be zero as at January 1, 2010.

##### ***(d) Borrowing costs***

The Company has elected only to capitalize borrowing costs relating to qualifying assets on or after the date of transition.



## Reconciliation of financial position

The following is a reconciliation of the Company's consolidated statement of financial position reported in accordance with Canadian GAAP to its consolidated statement of financial position reported in accordance with IFRS at the transition date January 1, 2010:

	Note	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		109,094	—	109,094
Accounts receivable		25,072	—	25,072
Inventories	6	39,432	189	39,621
Prepaid expenses and other assets	2	1,858	(86)	1,772
Income taxes recoverable		598	—	598
Derivative instruments		7,652	—	7,652
Deferred taxes	5, 8	10,103	(10,103)	—
		193,809	(10,000)	183,809
<b>Non-current assets</b>				
Property, plant and equipment, net	3, 7	27,779	10,094	37,873
Goodwill	3	52,337	(150)	52,187
Intangible assets, net	3	69,023	(582)	68,441
Available-for-sale investment		2,000	—	2,000
Derivative instruments		1,848	—	1,848
Deferred tax asset	3, 5b, 7, 8	41,054	6,302	47,356
		194,041	15,664	209,705
<b>Total assets</b>		387,850	5,664	393,514

	Note	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	8	13,930	(1,194)	12,736
Customer deposits		8,340	—	8,340
Long-term incentive plan	1	2,184	(2,184)	—
Dividends payable		2,224	—	2,224
Acquisition price, transaction and financing costs payable		1,028	—	1,028
Current portion of deferred credit	5a	9,305	(9,305)	—
Current portion of long-term debt		16	—	16
Provisions	8	—	1,194	1,194
		37,027	(11,489)	25,538
<b>Non-current liabilities</b>				
Long-term debt		25,403	—	25,403
Convertible unsecured subordinated debentures		103,107	—	103,107
Deferred tax liability	3, 5b, 7	1,047	1,167	2,214
Deferred credit	5a	38,601	(38,601)	—
Share award incentive plan	1	5,866	(9)	5,857
		174,024	(37,443)	136,581
<b>Total liabilities</b>		211,051	(48,932)	162,119
<b>Shareholders' equity</b>				
Common shares		157,279	—	157,279
Accumulated other comprehensive income		5,590	—	5,590
Equity component of convertible debentures		—	5,105	5,105
Contributed surplus		8,653	(4,794)	3,859
Retained earnings		5,277	54,285	59,562
<b>Total shareholders' equity</b>		176,799	54,596	231,395
		387,850	5,664	393,514

The following is a reconciliation of the Company's consolidated statement of financial position reported in accordance with Canadian GAAP to its consolidated statement of financial position reported in accordance with IFRS at December 31, 2010:

	Note	Canadian GAAP \$	Adjustments \$	IFRS \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		34,981	—	34,981
Cash held in trust		822	—	822
Restricted cash		1,860	—	1,860
Accounts receivable	4	36,910	1,625	38,535
Inventories	4, 6	53,631	(1,057)	52,574
Prepaid expenses and other assets	2	7,840	(212)	7,628
Derivative instruments		4,200	—	4,200
Deferred taxes	8	10,817	(10,817)	—
		151,061	(10,461)	140,600
<b>Non-current assets</b>				
Property, plant and equipment, net	7	67,206	11,816	79,022
Goodwill	2, 4	64,055	(1,700)	62,355
Intangible assets, net	4	72,388	(43)	72,345
Available-for-sale investment		2,000	—	2,000
Deferred tax asset	5b, 7, 8	34,853	7,210	42,063
		240,502	17,283	257,785
<b>Total assets</b>		391,563	6,822	398,385

	Note	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	8	24,565	(1,942)	22,623
Customer deposits		6,573	—	6,573
Long-term incentive plan	1	1,870	(1,870)	—
Dividends payable		2,509	—	2,509
Acquisition price, transaction and financing costs payable		11,994	—	11,994
Income taxes payable		56	—	56
Current portion of deferred credit	5a	8,302	(8,302)	—
Current portion of long-term debt		128	—	128
Current portion of obligations under finance leases		432	—	432
Current portion of share award incentive plan		2,003	—	2,003
Current portion of deferred tax liability	8	426	(426)	—
Provisions	8	—	1,942	1,942
		58,858	(10,598)	48,260
<b>Non-current liabilities</b>				
Long-term debt		24,518	—	24,518
Obligations under finance leases		138	—	138
Convertible unsecured subordinated debentures		105,140	—	105,140
Deferred tax liability	5b, 7	6,602	1,862	8,464
Deferred credit	5a	34,018	(34,018)	—
Share award incentive plan	1	1,573	(2)	1,571
		171,989	(32,158)	139,831
<b>Total liabilities</b>		230,847	(42,756)	188,091
<b>Shareholders' equity</b>				
Common shares		151,376	—	151,376
Accumulated other comprehensive income (loss)		(1,026)	583	(443)
Equity component of convertible debentures		—	5,105	5,105
Contributed surplus		11,121	(5,000)	6,121
Retained earnings (accumulated deficit)		(755)	48,890	48,135
<b>Total shareholders' equity</b>		160,716	49,578	210,294
		391,563	6,822	398,385

## Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the Transition Date:

	Note	Common shares	Equity component of debenture	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
		\$	\$	\$	\$	\$	\$
As reported under Canadian GAAP – December 31, 2009		157,279	—	8,653	5,277	5,590	176,799
Reclassifications							
Long-term incentive plan liability	1	—	—	2,184	—	—	2,184
Equity component of debenture	8	—	7,146	(7,146)	—	—	—
Differences increasing (decreasing) reported amounts							
DDCP	1	—	—	168	(168)	—	—
SAIP	1	—	—	—	9	—	9
Deferred income taxes	5b	—	(2,041)	—	57	—	(1,984)
Transaction costs	2	—	—	—	(86)	—	(86)
Translation of foreign operations	3	—	—	—	(427)	—	(427)
Deferred income taxes deferred credit	5a, 7	—	—	—	44,794	—	44,794
Inventories	6	—	—	—	189	—	189
Property, plant and equipment	7	—	—	—	9,917	—	9,917
As reported under IFRS – January 1, 2010		157,279	5,105	3,859	59,562	5,590	231,395

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2010:

	Note	Common shares \$	Equity component of debenture \$	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
As reported under Canadian GAAP – December 31, 2010		151,376	—	11,121	(755)	(1,026)	160,716
Reclassifications							
Long-term incentive plan liability	1	—	—	1,870	—	—	1,870
Equity component of debenture	8	—	7,146	(7,146)	—	—	—
Differences increasing (decreasing) reported amounts							
DDCP	1	—	—	276	(276)	—	—
SAIP	1	—	—	—	2	—	2
Income taxes – convertible debentures	5b	—	(2,041)	—	413	—	(1,628)
Transaction costs	2	—	—	—	(1,789)	—	(1,789)
Translation of foreign operations	3	—	—	—	(427)	427	—
Deferred income taxes – deferred credit	5a	—	—	—	42,320	—	42,320
Deferred income taxes – temporary differences	7	—	—	—	(3,632)	224	(3,408)
Property, plant and equipment	7	—	—	—	11,884	(68)	11,816
Inventories	6	—	—	—	395	—	395
As reported under IFRS – December 31, 2010		151,376	5,105	6,121	48,135	(443)	210,294

## NOTES TO THE RECONCILIATIONS

### 1. Share-based payments

The Company elected to retrospectively apply the provisions of IFRS 2 only to equity-settled awards that were unvested at the Transition Date and liability awards outstanding at the Transition Date.

The differences impacting the statement of financial position at the Transition Date include:

- LTIP was classified under Canadian GAAP as a liability plan, whereas under IFRS 2 due to the final settlement of the plan with treasury shares acquired by the administrator for the benefit of the management members, the plan qualifies as an equity-settled plan. Therefore, this change resulted in a reclassification of the balances from liability into shareholders' equity. At the Transition Date, the impact of this adjustment was to decrease the long-term incentive plan liability and increase contributed surplus by \$2,184 (December 31, 2010 – \$1,870).
- Awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes under Canadian GAAP. IFRS 2 requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has a different vesting date. This impacts the LTIP and the SAIP of the Company. At the Transition Date, the impact of this adjustment was to decrease the share award incentive plan liability and increase retained earnings by \$9 (December 31, 2010 – \$2).
- For the directors deferred compensation plan ("DDCP") the share-based remuneration vests under IFRS 2 directly in the respective service period, whereas under Canadian GAAP the expense was allocated over the deferred compensation period of three years. At the transition date, the impact of this adjustment was to decrease retained earnings and increase contributed surplus by \$168 (December 31, 2010 – \$276).

### 2. Transaction costs

In accordance with IFRS 3 (revised 2008) transaction costs incurred in the process of acquiring a business cannot be capitalized, but have to be immediately expensed. Under Canadian GAAP these transaction costs were capitalized by Ag Growth. As at the Transition

Date, the impact of this adjustment was to decrease prepaid expenses and other assets and decrease retained earnings by \$86. Transaction costs incurred in 2010 related to the business combinations for Mepu, Franklin and Tramco (note 7) resulted in an aggregate decrease to the goodwill balance in the amount of \$1,577 and an additional decrease of \$126 to prepaid expenses at December 31, 2010.

### 3. Translation of foreign operations

Under Canadian GAAP, until December 31, 2009 the Company had classified all business units as integrated operations and therefore used the Canadian dollar as the functional currency for all foreign entities. As at January 1, 2010, the Company determined that its foreign operations Hi Roller, Union Iron and Applegate had more characteristics of self-sustaining operations than integrated foreign operations. Accordingly, the Company adopted the current rate method of foreign currency translation for these foreign operations, resulting in using the local currency of these foreign operations as their functional currency under Canadian GAAP, applied on a prospective basis. In accordance with IAS 21, for IFRS purposes, every entity of the Company has to be individually reviewed for the determination of its functional currency and this has to be performed retrospectively as of the IFRS transition date. Therefore, for IFRS purposes, Hi Roller, Union Iron and Applegate were classified as U.S. dollar functional currency entities as of the transition date of January 1, 2010, whereas under Canadian GAAP they were still Canadian dollar functional currency entities. This change in the functional currency had the following impacts on the Company's assets, liabilities and retained earnings:

- (1) Goodwill: decrease of balance by \$150
- (2) Property, plant and equipment: increase of balance by \$177
- (3) Intangible assets: decrease of balance by \$582
- (4) Deferred tax liability: decrease of balance by \$128
- (5) Retained earnings: decrease of balance by \$427

For the elective exemptions from the retrospective application of IFRS 1 the Company elected to recognize the cumulative translation adjustment existing at the Transition Date directly into retained earnings. Therefore all the above listed impacts were directly recorded in the Company's retained earnings and have no impact on the other comprehensive income of the Company.

#### 4. Revenue recognition

Under Canadian GAAP all product deliveries were recorded when the risk of ownership was transferred. Similarly, for IFRS purposes, the majority of the revenues of Ag Growth are realized at the time of transfer of the risk of ownership. However, as described in note 3, the Company has classified certain of its customer contracts as construction contracts resulting in the earlier recognition of revenues and gross margin with the application of the percentage of completion method of accounting. As at December 31, 2010, as a result of the adjustment, the Company increased accounts receivable by \$1,625, decreased inventory \$1,452, decreased goodwill \$123, and decreased intangible assets \$43 (as the sale adjustment impacted the acquisition accounting).

#### 5. Income taxes

As noted above, the deferred tax balances as of the Transition Date and as of December 31, 2010 are impacted by the IFRS and Canadian GAAP adjustments.

Additionally, the accounting for income taxes under IAS 12 resulted in the following differences for the Company:

- a. In 2009, the Company converted from an income fund into a corporate entity under a plan of arrangement with a previously unrelated company. As a result of this transaction, the Company received tax attributes for which deferred tax assets in the amount of \$69,800 were recorded. The difference between this deferred tax asset and the purchase price of \$13,500 for shares of the previously unrelated company was recorded under Canadian GAAP as a deferred credit. This deferred credit had a carrying amount under Canadian GAAP of \$47,906 (January 1, 2010) and \$42,320 (December 31, 2010), respectively. For IFRS purposes, the difference between the tax benefits and the purchase price cannot be deferred, but the benefit from the higher fair value of the tax benefits has to be retrospectively recorded as of the Transition Date. The adjustment results in an increase to retained earnings as of the different reporting dates during the comparison period 2010 and the elimination of the deferred credit as reported under Canadian GAAP.

- b. IFRS requires the bifurcation of convertible debt instruments into a liability and an equity component. IFRS further requires the recognition of a temporary difference based on the difference between the carrying amount of the liability at issuance and its underlying tax basis. All changes in the initial temporary difference for the liability component of the convertible debt are recognized in the consolidated statement of income.

Under Canadian GAAP the tax basis of the liability component of the convertible debenture is considered to be the same as its carrying amount, and therefore the recognition of a temporary difference is not required. This difference between IFRS and Canadian GAAP results in an additional temporary difference for the Company's \$115,000 Debenture. An additional deferred tax liability of \$1,984 has to be recorded as of the Transition Date (December 31, 2010 - \$1,628). The impact of \$1,984 as of the Transition Date results in a corresponding debit entry to the equity component of the convertible debenture of \$2,041 and increase to retained earnings of \$57. Subsequent movements in the deferred tax liability of \$413 at December 31, 2010 resulted in a decrease to deferred income tax expense.

#### 6. Inventories

Due to the remeasurement of property, plant and equipment and changes to the depreciation expense, Ag Growth was required to adjust the overhead allocation on the valuation of its inventory by \$189 at transition (\$395 – December 31, 2010).

#### 7. Property, plant and equipment

For all items of property, plant and equipment, the provisions of IAS 16 were retrospectively applied. The assessment and annual review criteria of useful lives and depreciation methods are more explicit in IFRS, which required Ag Growth to adjust certain carrying amounts of its assets. Furthermore, the componentization requirements are more explicit in IFRS. Differences relating to the level of componentization, depreciation methods and useful lives resulted in the carrying value of these assets at the transition date to increase from the recorded amount under Canadian GAAP by \$9,917 (December 31, 2010 – \$11,816). The related tax impact of the change in temporary differences resulted in additional deferred tax liability of \$3,112 at the Transition Date (December 31, 2010 – \$3,408).



## 8. Reclassifications

Certain balances have been reclassified between accounts to conform with IFRS.

Reconciliation of profit and loss for the twelve-month period ended December 31, 2010

	Note	Year ended December 31, 2010 \$
Net income reported under Canadian GAAP		36,156
Differences increasing (decreasing) net income		
Depreciation expense	1	2,113
Cost of sales	1	(44)
Deferred income tax		
Deferred credit	2a	(5,586)
Convertible debentures	2b	339
Temporary differences	2c	(375)
Cost of sales	3	8
General and administrative	4	(1,703)
General and administrative	5	(115)
Translation gain	6	(32)
Net profit recorded under IFRS		30,761

### Notes to the reconciliations

- The componentization of property, plant, equipment and change in useful lives and depreciation methods resulted in a decrease to depreciation expense of \$2,113, and a reduction to the gain on sale of property, plant and equipment of \$44, respectively.
- The Company converted from an income fund into a corporate entity in 2009 under a plan of arrangement that resulted in the Company receiving tax attributes and recording a deferred tax asset of \$69,800 and a related deferred credit of \$56,300. Under IFRS, deferred credits are generally not recognized, which ultimately results in an increase in the Company's non-cash deferred tax expense of \$5,586 at December 31, 2010.
  - Under IFRS, a temporary difference is recorded related to the convertible debenture resulting in the recognition of a deferred tax liability on transition. Subsequent movements in the deferred tax liability of \$339 at December 31, 2010 resulted in a decrease to deferred income tax expense.
  - The temporary differences arising from changes in carrying values of inventories and property, plant and equipment on transition to IFRS result in an increase of \$375 to future income tax expense at December 31, 2010.
- The change in the Company's depreciation method impacted the Company's inventory overhead rate, which resulted in a change in inventory values and change in inventories expensed through cost of goods sold.
- Under IFRS, transaction costs incurred in the process of acquiring a business cannot be capitalized, but instead have to be immediately expensed resulting in an increase to selling, general and administrative expense of \$1,703 at December 31, 2010.
- Under IFRS, the calculation of the expense related to equity-settled compensation plans differs to reflect changes in the measurement and recognition of equity-settled awards that were outstanding and unvested at the Transition Date and those that were granted during the period. The impact of this adjustment was to increase (decrease) the SAIP expense by \$(7) and the DDCP by \$108 for year ended December 31, 2010.
- Under IFRS, the Company has identified a limited number of contracts as construction contracts and has recognized revenue based on the percentage of completion methodology, which typically results in earlier recognition of revenues and costs. As a result, certain revenues and costs denominated in foreign currencies were recognized in different periods compared to Canadian GAAP and were translated to Canadian dollars at different rates of foreign exchange.

### **(e) Reconciliation of comprehensive income as reported under Canadian GAAP and IFRS**

The following is a reconciliation of the Company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010:

	<b>Note</b>	<b>Year ended December 31, 2010</b>
		\$
Comprehensive income as reported under Canadian GAAP		29,540
Differences (decreasing) increasing reported amounts		
Differences in net income	(i)	(5,395)
Change in other comprehensive income		
Foreign currency translation	(ii)	583
		(4,812)
Comprehensive income as reported under IFRS		24,728

#### ***(i) Differences in net income***

Reflects the differences in net income between Canadian GAAP and IFRS as described in note 33.

#### ***(ii) Foreign currency translation***

Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date and revenue and expenses at average rates during the period. The increase in property, plant and equipment creates increased foreign currency translation adjustments recorded in OCI.

### **34. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

**Officers**

Gary Anderson, President, Chief Executive Officer and Director  
Steve Sommerfeld, CA, Executive Vice President and Chief Financial Officer  
Dan Donner, Senior Vice President, Sales and Marketing  
Paul Franzmann, CA, Senior Vice President, Operations  
Ron Braun, Vice President, Portable Grain Handling  
Nicolle Parker, Vice President, Finance and Integration  
Craig Nimegeers, Vice President, Engineering  
Arto Sainio, Managing Director, European Operations  
Gurcan Kocdag, Vice President, Storage and Conditioning  
Eric Lister, Q.C., Counsel

**Directors**

Gary Anderson  
John R. Brodie, FCA, Audit Committee Chairman  
Bill Lambert, Board of Directors Chairman  
Bill Maslechko, Governance Committee Chairman  
David White, CA

Additional information relating to the Company, including all public filings,  
is available on SEDAR ([www.sedar.com](http://www.sedar.com)).



