



**2012 Quarterly Report**

For the three and nine-month periods ended September 30, 2012



On behalf of the Board of Directors, Management and Staff of AGI we are pleased to present our Q-3 2012 financial results. Sales for quarter were \$83.5 million compared to \$81.8 million in Q-3 2011. Year to date sales ended September 30, 2012 were \$254.7 million vs. \$234.0 million in 2011. Adjusted EBITDA for Q-3, 2012 was \$12.5 million, with YTD adjusted EBTIDA of \$44.8 million. This compares to \$14.8 million and \$44.7 million for the corresponding periods in 2011. EPS in Q-3 2012 was \$0.52 vs. \$0.36 in Q-3 2011 while EPS for the nine months ended September 30, 2012 was \$1.64 compared to \$1.69 in 2011.

Severe drought in both the mid-west and great-plains regions of the U.S. certainly took its toll on what had once appeared to be a year with so much promise. Sales in the U.S. excluding those from our Airlanco acquisition were down 20% in Q-3, with the on-farm piece of the business impacted the most. We expect this trend to continue through Q-4 and to impact our pre-season booking program this winter. Dealer and stock point inventory was managed very effectively by our team with increased carry over estimated at only \$3 million more than in a typical year. Farmer sentiment however is expected to remain guarded for our product offerings until spring planting. All of this underscores the need for further geographic diversification.

We are very pleased to note that Q-3 2012 saw a 54% increase in International sales over Q-3 2011; in fact for the first time ever in a Q-3, International Sales exceeded Canadian sales. We expect going forward that this will become more commonplace, as we push hard toward our near-term goal of 30% International sales.

While we are making progress in a number of regions, the most significant improvement has been in the region of Russia, Ukraine and Kazakhstan. On a recent visit to Russia and Ukraine I came away very impressed by the increased presence of AGI in this region and the breadth and depth of the relationships developed over the last several years.

In total the year to date sales generated by our Winnipeg Sales and Support Team exceed \$40 million, up substantially over the \$17 million sold in all of 2011. Even more encouraging is the ratio of repeat sales to total sales of the previous year. At over 1 to 1 it demonstrates that our market development is maturing and is much less transactional than in previous years. Some of the sales come from a growing distribution network while others are with end-users that are undergoing multi-year expansion plans.

In addition to geographic expansion we have also been very productive on the R & D front. At the top of the list is the transformation of our product lines at MEPU to meet high capacity demands in new markets. At Twister, we are developing larger commercial bins, up to 105' in diameter, giving us the ability to compete in large commercial projects anywhere in the world. Back home in North America we are continuing to refresh our portable grain handling lines with larger capacity offerings. And I have to say that our R&D teams have recently done some of their best work in years, with more to come in the future.

We know there has been a lot of uncertainty expressed by the markets lately as we endure the effects of the US drought. We want to assure you that our AGI franchise is intact as we have:

- extensive catalogue
- some of the best brands in the industry
- specialized production facilities
- excellent distribution channels
- outstanding employees, and
- a rapidly expanding geography.

We have some short-term pain yet to ride out, but our long-term future looks brighter than ever before. We would like to express our sincere gratitude to our long-term shareholders who are hanging in there with us through this short-term set back. Steve Sommerfeld and I have been with this company since start-up. We can both attest to the journey being 'anything but easy'. But it has always been exhilarating. And that is because our entrepreneurial culture continually challenges us to stretch and adapt. Sometimes things don't go quite as planned, or in this case Mother Nature steps in with her best shot. But, when that happens we dig in hard and fight through it. That's how we've built this company – with perseverance and determination. We've always been a feisty bunch and I can assure you that there is still a lot of 'scrap' left in us. We will soon be back on track, stronger than ever.

Thank you,  
Gary Anderson  
President/CEO

**AG GROWTH INTERNATIONAL INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Dated: November 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 and the unaudited interim condensed consolidated financial statements of the Company for the three and nine month periods ended September 30, 2012. 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**

(thousands of dollars)	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Trade sales (1)	\$83,465	\$81,845	\$254,717	\$233,975
Adjusted EBITDA (1)	\$12,531	\$14,836	\$44,757	\$44,705
Net Profit	\$6,501	\$4,570	\$20,624	\$21,270
Diluted profit per share	\$0.52	\$0.36	\$1.64	\$1.69

(1) 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”.

**Trade Sales** (see non-IFRS Measures)

Trade sales in the three and nine month periods ending September 30, 2012 increased \$1.6 million (2%) and \$20.7 million (9%) over the same periods in the prior year. The largest single driver of sales growth in the three and nine month periods was a substantial increase in international business, particularly in the countries of the former Soviet Union (the “FSU”). Also contributing to this growth was robust demand in western Canada and the acquisition of Airlanco. The Company achieved sales growth despite a decline in U.S. sales that resulted from a severe drought that significantly impacted third quarter demand.

### The 2012 U.S. Drought

The drought in the United States in 2012 was one of the most severe and widespread droughts in over half a century. The drought negatively impacted crop production volume and customer sentiment and led to a very early and efficient harvest:

	2012	2011	Change
Projected U.S. corn production, bushels (1)	10.7 billion	12.4 billion	(14%)
Corn yield, bushels(1)	122 per acre	147 per acre	(17%)
Corn harvest, % complete at Sep 30 (2)	54%	18%	-

(1) Per United States Department of agriculture Crop Production report.

(2) Per NASS Crop Progress report

### Sales by Geographic Region

The Company's significant growth in offshore business and the impact of the 2012 U.S. drought are reflected in our regional sales breakdown for the three and nine month periods ended September 30, 2012:

(\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Change	2012	2011	Change
Canada	\$17,998	17,129	5%	\$64,112	\$52,302	23%
US	42,699	49,899	(14%)	136,100	141,172	(4%)
Overseas	22,768	14,817	54%	54,505	40,501	35%
<b>Total</b>	<b>\$83,465</b>	<b>\$81,845</b>	<b>2%</b>	<b>\$254,717</b>	<b>\$233,975</b>	<b>9%</b>

### **Gross Margin** (see non-IFRS Measures)

The Company's gross margin percentage for the quarter ended September 30, 2012 was 30.5% (2011 – 32.8%) and for the nine months then ended was 32.9% (2011 – 34.3%). The decrease in gross margin percentages compared to the prior year was largely the result of sales mix as the U.S. drought most significantly impacted sales and throughput at the Company's higher margin portable grain handling equipment divisions. Gross margin percentages at Mepu also decreased compared to the prior year, particularly in the third quarter, due to the launch of a new series of mobile grain dryers and the development of a new line of commercial capacity dryers. The Company anticipates significant benefits from these products in future years however gross margin in 2012 was negatively impacted by compression related to the first run of the new series and production efficiencies related to new product development.

The Company's Twister greenfield storage bin facility commenced production in June 2011 and the start-up issues and related gross margin compression that impacted 2011 was experienced primarily in the second half of that year. The start-up issues of 2011 have been resolved and the

Company's storage products are generating positive margins that are consistent with management expectations.

#### **Adjusted EBITDA** (see non-IFRS Measures)

Adjusted EBITDA was \$12.5 million for the quarter ended September 30, 2012 (2011 - \$14.9 million) and \$44.8 million (2011 - \$44.8 million) for the nine months then ended. Lower adjusted EBITDA in the third quarter of 2012 compared to the prior year is primarily related to the U.S. drought and its negative impact on demand for portable grain handling equipment and, to a lesser extent, domestic commercial handling equipment.

Adjusted EBITDA in 2012 was negatively impacted by results from the Company's Mepu division. Sales at Mepu increased over the prior year however gross margin percentages decreased due largely to new product development. The Company anticipates significant benefits from these products in future years however the margins earned on rollout and their effect on plant efficiencies at Mepu will significantly contribute to a loss in 2012 similar to the prior year.

Adjusted EBITDA in 2012 benefitted from strong demand in western Canada and significant international growth that resulted from increased penetration in the FSU and elsewhere resulting in higher sales of large diameter storage bins and commercial grain handling equipment.

#### **Diluted profit per share**

Diluted profit per share in the third quarter of 2012 was \$0.52 (2011 - \$0.36) and for the nine months ended September 30, 2012 was \$1.64 (2011 - \$1.69). Diluted profit per share increased in the third quarter of 2012 compared to the prior year as the decrease in adjusted EBITDA was more than offset by lower transaction costs, a higher gain on foreign exchange and a lower effective tax rate. For the nine month period ended September 30, 2012, adjusted EBITDA was consistent with the prior year however diluted profit per share decreased \$0.05 per share as a large gain on foreign exchange in 2011 was only partially offset by lower transaction expenses and a lower effective tax rate in the current year.

### **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 U.S. and Europe and we sell products globally, with most of our sales in the U.S.

Our business is sensitive to fluctuations in the value of the Canadian and U.S. dollars as a result of our exports from Canada to the U.S. and as a result of earnings derived from our U.S. 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. The Company's average rate of foreign exchange per USD \$1.00 was CAD \$1.00 for both the three and nine months ended September 30, 2012 compared to \$0.97 in both periods in 2011.

Our business is also sensitive to fluctuations in input costs, especially steel, a principal raw material in our products, which represents roughly 30% of the Company's production costs. 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 acquisitions can significantly impact comparisons between periods.

### **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 \$12.5 million in 2011, operating out of an 80,000 square foot facility with 65 employees.

### **OUTLOOK**

The severe U.S. drought in 2012 significantly reduced crop production volumes and resulted in a very early and efficient harvest. As a result, the Company expects limited in-season sales in the fourth quarter of 2012. The poor harvest also resulted in limited inventory carryover which is likely to reduce participation in the Company's fourth quarter preseason booking programs and may temper demand for portable equipment in the first and second quarters of 2013. Management believes U.S. farmers are likely to plant a significant number of corn acres in 2013 to capitalize on high commodity prices and accordingly, based on current conditions, management is optimistic with respect to demand for portable grain handling equipment in the second half of 2013.

The widespread drought in the U.S. also impacted the Company's commercial businesses. Negative market sentiment and an outlook for lower commercial handling volumes in the short-term delayed the launch of certain domestic commercial business in 2012, particularly on smaller, regional projects. Although quoting activity for 2013 business has increased recently, due to lead times associated with commercial business domestic demand in the next several months is expected to be constrained. However, based on current conditions management expects a return to normalized conditions in the second half of 2013.

Crop production in Canada increased slightly compared to 2011 and dealer inventories post-harvest are consistent with historical levels. Although dry conditions later in the growing season resulted in an early harvest and tempered fourth quarter in-season sales, management expects participation in preseason programs to be consistent with previous years. Looking ahead to 2013, management expects the Company's commercial business will continue to grow and based on current conditions expects another strong year in portable grain handling, storage and conditioning.

Ag Growth enjoyed great success offshore in 2012 and expects growth in international business to continue in 2013. Quoting activity is at record highs and the Company's growing presence and distribution in many offshore markets, particularly in the FSU, positions the Company well for the upcoming year. In 2013 the Company will also introduce 105 foot diameter storage bins and commercial capacity grain drying equipment which will further complete Ag Growth's industry leading commercial product offering.

On balance, the short-term impact of the U.S. drought and the early U.S. harvest is expected to temper fourth quarter demand for both portable and commercial grain handling products in the United States. As a result, sales and adjusted EBITDA in the fourth quarter of 2012 are expected to be well below the fourth quarter of 2011. The Company's fiscal 2012 payout ratio will increase compared to 2011 however the Company's dividend policy will not be altered in response to this short-term weather event.

Management remains optimistic with respect to the Company's prospects in 2013. Although the 2012 drought resulted in higher than typical inventory carryover at our U.S. dealers, the impact is not expected to extend beyond the second quarter of 2013. In the upcoming year U.S. farmers may again plant significant corn acreage to capitalize on high commodity prices which would then be expected to result in robust demand for portable grain handling equipment in the second half of 2013. Demand in the Canadian market is expected to be strong in 2013 and Ag Growth remains very optimistic with respect to its international business and the potential of bundling commercial grain handling equipment with storage bins and other Ag Growth products. In summary, although management anticipates some softness in the United States in first half of 2013, based on current conditions the Company anticipates a return to favourable conditions with the new crop year and expects sales and adjusted EBITDA in 2013 to increase significantly compared to the drought impacted results of 2012.

## DETAILED OPERATING RESULTS

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Trade sales <sup>(1)</sup>	\$83,465	\$81,845	\$254,717	\$233,975
Gain (loss) on FX <sup>(2)</sup>	<u>390</u>	<u>1,496</u>	<u>(392)</u>	<u>4,542</u>
Sales	<u>83,855</u>	83,341	<u>254,325</u>	238,517
Cost of inventories	58,026	55,008	170,901	153,717
Depreciation & amortization	<u>1,509</u>	<u>1,417</u>	<u>4,401</u>	<u>4,121</u>
Cost of sales	<u>59,535</u>	<u>56,425</u>	<u>175,302</u>	<u>157,838</u>

General and administrative	12,932	13,776	39,156	37,486
Depreciation & amortization	1,014	800	3,104	2,616
Other operating loss (income)	23	19	(53)	92
Finance costs	3,273	3,152	9,800	9,384
Finance expense (income)	<u>(1,254)</u>	<u>1,857</u>	<u>(1,167)</u>	<u>870</u>
Profit before income taxes	8,332	7,312	28,183	30,231
Current income taxes	879	1,155	3,655	4,029
Deferred income taxes	<u>952</u>	<u>1,587</u>	<u>3,904</u>	<u>4,932</u>
Profit for the period	<u>\$6,501</u>	<u>\$4,570</u>	<u>\$20,624</u>	<u>\$21,270</u>
Net profit per share				
Basic	<u>\$0.52</u>	<u>\$0.37</u>	<u>\$1.65</u>	<u>\$1.71</u>
Diluted	<u>\$0.52</u>	<u>\$0.36</u>	<u>\$1.64</u>	<u>\$1.69</u>

(1) See “Non-IFRS Measures”.

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

#### EBITDA RECONCILIATION

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Profit before income taxes	\$8,332	\$7,312	\$28,183	30,231
Finance costs	3,273	3,152	9,800	9,384
Depreciation and amortization in cost of sales	1,509	1,417	4,401	4,121
Depreciation and amortization in G&A expenses	<u>1,014</u>	<u>800</u>	<u>3,104</u>	<u>2,616</u>
<b>EBITDA <sup>(1)</sup></b>	<b>14,128</b>	<b>12,681</b>	<b>45,488</b>	<b>46,352</b>
Transaction costs	0	1,721	0	1,721
Loss (gain) on foreign exchange in sales <sup>(2)</sup>	(390)	(1,496)	392	(4,542)
Loss (gain) on foreign exchange in finance income	(1,254)	1,865	(1,183)	1,107
Loss on sale of property, plant & equipment	<u>47</u>	<u>65</u>	<u>60</u>	<u>67</u>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b><u>\$12,531</u></b>	<b><u>\$14,836</u></b>	<b><u>\$44,757</u></b>	<b><u>\$44,705</u></b>

(1) See “Non-IFRS Measures”.

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

## ASSETS AND LIABILITIES

(thousands of dollars)	September 30 2012	December 31 2011	September 30 2011
Total assets	\$389,372	\$394,566	\$396,482
Total liabilities	\$189,137	\$192,407	\$188,529

## EXPLANATION OF OPERATING RESULTS

### Trade sales

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Trade sales	\$83,465	\$81,845	\$254,717	\$233,975
Trade sales excluding acquisitions (1)	\$80,778	\$81,845	\$246,498	\$233,975

(1) Excluding the results of Airlanco which was acquired on October 4, 2011.

### Canada

- Trade sales increased 5% and 23% in the three and nine month periods, respectively.
- Crop production in Canada was up slightly compared to the prior and as a result third quarter in-season demand for on-farm handling equipment was similar to 2011.
- Sales of portable grain handling equipment also benefited from the launch of a new auger line which was well received by the market.
- Sales of larger diameter storage bins and commercial grain handling equipment increased compared to 2011 as the Company continues to grow its Canadian commercial business.

### United States

- Trade sales, excluding the acquisition of Airlanco, decreased 20% and 9% in the three and nine month periods, respectively.
- The most severe drought in over half a century negatively impacted crop yield and consumer sentiment while dry conditions led to an early and very efficient harvest. These factors resulted in a significant decrease in portable grain handling sales.
- Sales of commercial handling equipment in the U.S. remained strong on a historical basis however did not match the record levels attained in 2011, particularly in the third quarter, due in part to negative market sentiment in the current year related to the drought.

### International

- Trade sales increased 54% and 35% in the three and nine month periods, respectively.
- Ag Growth's international sales and support group has grown from a start-up in 2007 to now include over 20 staff based in Winnipeg and Latvia with additional support from two sales offices in South America and its storage commercial handling and conditioning divisions in Canada, Finland and the United States.

- The significant increase in sales is largely due to increased penetration in the FSU. Sales to the FSU in the nine month period ended September 30, 2012 were over \$25 million, more than double the levels achieved in all of 2011.
- Sales to customers with which the Company also did business in 2011 or earlier continues to increase. In the nine-month period September 30, 2012, these repeat sales exceeded the total sales achieved by AGI's Winnipeg based international team in fiscal 2011. Management believes this favourable level of repeat business is an indicator of product quality, commitment to customer service and the establishment of longer term relationships throughout the globe.
- The Company's international sales order backlog remains significantly higher than at this time in 2011 and international sales in 2012 are expected to greatly exceed those reported in 2011. The current quotation level for 2013 business also greatly exceeds the outstanding quotes at this time last year.

### Gross Profit and Gross Margin

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Trade sales	\$83,465	\$81,845	\$254,717	\$233,975
Cost of inventories <sup>(1)</sup>	<u>58,026</u>	<u>55,008</u>	<u>170,901</u>	<u>153,717</u>
Gross Margin	<u>\$25,439</u>	<u>\$26,837</u>	<u>\$83,816</u>	<u>\$80,258</u>
Gross Margin <sup>(1)</sup> (as a % of trade sales)	30.5%	32.8%	32.9%	34.3%

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

The Company's gross margin percentage for the quarter ended September 30, 2012 was 30.5% (2011 – 32.8%) and for the nine months then ended was 32.9% (2011 – 34.3%). The decrease in gross margin percentages compared to the prior year was largely the result of sales mix as the U.S. drought most significantly impacted sales and throughput at the Company's higher margin portable grain handling equipment. Gross margin percentages at Mepu also decreased compared to the prior year, particularly in the third quarter, as the launch of a new series of mobile grain dryers and the development of a new line of commercial capacity dryers negatively impacted gross margin.

The Company's Twister greenfield storage bin facility commenced production in June 2011 and the start-up issues and related gross margin compression that impacted 2011 were experienced primarily in the second half of that year. The start-up issues of 2011 have been resolved and the Company's storage products are generating positive margins that are consistent with management expectations.

## General and Administrative Expenses

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
G&A (1)	\$12,932	\$12,055	\$39,156	\$35,765
G&A (as a % of trade sales)	15.5%	14.7%	15.4%	15.3%
G&A excluding acquisitions	\$12,545	\$12,055	\$37,990	\$35,765

(1) The three and nine month periods ended September 30, 2011 exclude transaction costs of \$1.7 million.

For the three and nine month periods ended September 30, 2012, general & administrative expenses excluding acquisitions increased \$0.5 million and \$2.2 million, respectively. The change from 2011 is largely due to the following:

- Sales & Marketing expenses increased \$0.3 million and \$1.8 million in the three and nine month periods ended September 30, 2012 as the Company continued to invest in its international sales development. The increase is largely due to salaries and travel for sales and support personnel added throughout fiscal 2011.
- Commission expenses increased \$0.3 million and \$0.6 million in the three and nine month periods due largely to sales mix.
- Professional fees decreased \$0.4 million and \$0.8 million in the three and nine month periods largely due to expenses in the prior year related to the transition to IFRS.
- Stock-based compensation expenses decreased \$0.5 million in the nine month period (no change in three month period) as there were no awards outstanding in 2012 under the share award incentive plan ("SAIP") and no expense related to a fiscal 2012 long-term incentive plan ("LTIP"). The adoption of a new stock based compensation plan was approved by shareholders in May 2012 however to date no awards have been issued under these plans.
- The remaining variance is the result of a number of offsetting factors with no individual variance larger than \$0.4 million.

## EBITDA and Adjusted EBITDA

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
EBITDA <sup>(1)</sup>	\$14,128	\$12,681	\$45,488	\$46,352
Adjusted EBITDA <sup>(1)</sup>	\$12,531	\$14,836	\$44,757	\$44,705

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

Adjusted EBITDA in the third quarter of 2012 decreased compared to 2011 largely due to the impact of the severe drought in the United States. For the nine month period ended September 30, 2012, adjusted EBITDA was consistent with prior year levels as strong first half demand was offset by the impact of the drought which primarily impacted third quarter results.

EBITDA in the third quarter of 2012 increased compared to 2011 as a lower adjusted EBITDA was more than offset by a higher gain on foreign exchange and decreased transaction expenses. For the nine month period ended September 30, 2012, EBITDA decreased compared to 2011 due primarily to a lower gain on foreign exchange which was partially offset by lower transaction costs.

### Finance Costs

The Company's bank indebtedness as at September 30, 2012 was \$1.1 million (December 31, 2011 and September 30, 2011 – nil) and its outstanding long-term debt and obligations under capital leases was \$34.5 million (December 31, 2011 - \$36.0 million; September 30, 2011 - \$25.8 million). Long-term debt at September 30, 2012 is primarily comprised of U.S. \$25.0 million aggregate principal amount of non-amortizing secured notes that bear interest at 6.80% and mature October 29, 2016 and U.S. \$10.5 million of non-amortizing term debt, net of all deferred financing costs of \$0.5 million. The increase compared to September 30, 2011 is primarily due to long-term debt drawn to finance the October 4, 2011 acquisition of Airlanco. See "Capital Resources" for a description of the Company's credit facilities.

Finance costs for the three and nine months ended September 30, 2012 were \$3.3 million and \$9.8 million, respectively (2011 - \$3.2 million and \$9.4 million). The increase compared to the prior year is largely due to the debt financed acquisition of Airlanco in October 2011. At September 30, 2012, the Company had outstanding \$114.9 million aggregate principal amount of convertible unsecured subordinated debentures (December 31, 2011 and September 30, 2011 - \$114.9 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 Expense (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

Depreciation of property, plant and equipment and amortization of intangible assets are categorized on the income statement in accordance with the function to which the underlying asset is related. Total depreciation and amortization is summarized below:

Depreciation (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Depreciation in cost of sales	\$1,417	\$1,254	\$4,194	\$3,589
Depreciation in G&A	<u>150</u>	<u>105</u>	<u>440</u>	<u>350</u>
Total Depreciation	<u>\$1,567</u>	<u>\$1,359</u>	<u>\$4,634</u>	<u>\$3,939</u>

Amortization (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Amortization in cost of sales	\$92	\$163	\$207	\$532
Amortization in G&A	<u>864</u>	<u>695</u>	<u>2,664</u>	<u>2,266</u>
Total Amortization	<u>\$956</u>	<u>\$858</u>	<u>\$2,871</u>	<u>\$2,798</u>

### Current income tax expense

For the three and nine months ended September 30, 2012, the Company recorded current tax expense of \$0.9 million and \$3.7 million respectively (2011 – \$1.2 million and \$4.0 million). Current tax expense relates primarily to certain subsidiary corporations of Ag Growth, including its U.S. and UK based divisions.

### Deferred income tax expense

For the three and nine months ended September 30, 2012, the Company recorded deferred tax expense of \$1.0 million and \$3.9 million, respectively (2011 – \$1.6 million and \$4.9 million). The deferred tax expense in 2012 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, reserves, deferred compensation plans and deferred financing fees.

Effective tax rate (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Current tax expense	879	1,155	3,655	4,029
Deferred tax expense	<u>952</u>	<u>1,587</u>	<u>3,904</u>	<u>4,932</u>
Total tax	<u>\$1,831</u>	<u>\$2,742</u>	<u>\$7,559</u>	<u>\$8,961</u>
Profit before taxes	8,332	7,312	28,183	30,231
Total tax %	22%	38%	27%	30%

The effective tax rate in the third quarter of 2012 is less than that of a year ago largely due to the impact of non-cash foreign exchange translation.

### Profit and profit per share

For the three and nine months ended September 30, 2012, the Company reported net profit of \$6.5 million (2011 - \$4.6 million) and \$20.6 million (2011 - \$21.3 million), respectively, basic net profit per share of \$0.52 (2011 - \$0.37) and \$1.65 (2011 - \$1.71), and fully diluted net profit per share of \$0.52 (2011 - \$0.36) and \$1.64 (2011 - \$1.69). Diluted profit per share increased in the third quarter of 2012 compared to the prior year as the decrease in adjusted EBITDA was more than offset by lower transaction costs, a higher gain on foreign exchange and a lower effective tax rate. For the nine month period ended September 30, 2012, adjusted EBITDA was consistent with the prior year however diluted profit per share decreased \$0.05 per share as a

large gain on foreign exchange in 2011 was only partially offset by lower transaction expenses and a lower effective tax rate in the current year.

**QUARTERLY FINANCIAL INFORMATION** (thousands of dollars):

2012					
	Average USD/CAD Exchange Rate	Sales	Profit	Basic Profit per Share	Diluted Profit per Share
Q1	\$1.00	\$72,355	\$5,299	\$0.42	\$0.42
Q2	\$1.01	98,115	8,824	\$0.71	\$0.70
Q3	\$1.00	83,855	6,501	\$0.52	\$0.52
<b>Sep 30/12</b>	<b>\$1.00</b>	<b>\$254,325</b>	<b>\$20,624</b>	<b>\$1.65</b>	<b>\$1.64</b>

2011					
	Average USD/CAD Exchange Rate	Sales	Profit	Basic Profit per Share	Diluted Profit per Share
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>	<b>\$0.97</b>	<b>\$305,932</b>	<b>\$24,523</b>	<b>\$1.97</b>	<b>\$1.95</b>

2010					
	Average USD/CAD Exchange Rate	Sales	Profit (Loss)	Basic Profit (Loss) per Share	Diluted Profit (Loss) per Share
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>	<b>\$1.04</b>	<b>\$269,267</b>	<b>\$30,761</b>	<b>\$2.43</b>	<b>\$2.40</b>

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 seasonality of Ag Growth's business may be impacted by a number of factors including weather and the timing and quality of harvest in North America.

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 2010), Franklin (October 2010), Tramco (December 2010) and Airlanco (October 2011).

## CASH FLOW AND LIQUIDITY

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Profit before income taxes	\$8,332	\$7,312	\$28,183	\$30,231
Add charges (deduct credits) to operations not requiring a current cash payment:				
Depreciation and amortization	2,523	2,217	7,505	6,737
Translation (gain) loss on FX	(3,345)	5,232	(2,729)	3,156
Non-cash interest expense	645	611	1,881	1,800
Stock based compensation	306	345	887	1,463
Loss on sale of assets	<u>47</u>	<u>65</u>	<u>60</u>	<u>67</u>
	<u>8,508</u>	<u>15,782</u>	<u>35,787</u>	<u>43,454</u>
Net change in non-cash working capital balances related to operations:				
Accounts receivable	3,121	809	(12,214)	(21,730)
Inventory	5,504	(2,793)	184	(12,732)
Prepaid expenses and other	598	528	578	2,927
Accounts payable and accruals	177	(62)	3,064	4,890
Customer deposits	(788)	(652)	(2,884)	241
Provisions	<u>(261)</u>	<u>3</u>	<u>13</u>	<u>(10)</u>
	<u>8,351</u>	<u>(2,167)</u>	<u>(11,259)</u>	<u>(26,414)</u>
Settlement of SAIP obligation	0	0	(1,495)	(1,998)
Income tax paid	<u>(2,031)</u>	<u>(1,818)</u>	<u>(3,004)</u>	<u>(4,707)</u>
Cash provided by operations	<u>\$14,828</u>	<u>\$11,797</u>	<u>\$20,029</u>	<u>\$10,335</u>

For the quarter ended September 30, 2012, cash provided by operations was \$14.8 million (2011 – \$11.8 million) and for the nine months then ended cash provided by operations was \$20.0 million (2011 – \$10.3 million). The increase compared to 2011 is largely the result of a significant improvement in cash generated from working capital. Most significantly, cash generated from inventory movement increased compared to 2011 due to an increased focus on

inventory management and because working capital in 2011 included a substantial investment in inventory to support the start-up of the Company's greenfield storage bin facility.

### **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.

Results for the nine-month period ended September 30, 2012 were negatively impacted by a severe drought in the United States. As a result, third quarter sales were lower than the second quarter and accounts receivable as at September 30, 2012 is lower than as at June 30, 2012. Results in the fourth quarter of 2012 may be impacted by conditions related to the severe 2012 drought in the U.S. (see "Outlook") that may negatively impact sales, the timeliness of collections of accounts receivable and the drawdown of the company's inventory.

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.

### **Capital Expenditures**

Maintenance capital expenditures in the three months ended September 30, 2012 were \$0.7 million or 0.8% of trade sales (2011 - \$0.6 million and 0.7% ) and in the nine months then ended were \$3.1 million or 1.2% of trade sales (2011 - \$2.7 million or 1.1%) Maintenance capital expenditures in 2012 relate primarily to purchases of manufacturing equipment, leasehold improvements and building repairs 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 of \$0.3 million and \$1.1 million in the three and nine months ended September 30, 2012 (2011 - \$1.0 million and \$4.8 million). Non-maintenance capital expenditures in 2012 relate primarily to investments in equipment to support growth at the Company's commercial divisions. Capital expenditures in 2012 are expected to decrease 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 increased \$6.0 million in the three months ended September 30, 2012 (2011 - \$2.4 million) and decreased \$7.9 million in the nine months then ended (2011 – \$32.6 million). The movement in cash in both periods is in part attributable to seasonality. The increase in cash in the quarter ended September 30, 2012 was larger than the prior year largely due to an increase in cash generated from working capital movements. The decrease in the nine months ended September 30, 2012 was less than the decline in 2011 due to lower capital expenditures, an increase in cash provided by non-cash working capital and because the first quarter of the prior year included payments of \$9.9 million related to the acquisition of Tramco and \$3.3 million related to the purchase of shares under the Company's LTIP.

## CONTRACTUAL OBLIGATIONS (thousands of dollars)

	Total	2012	2013	2014	2015	2016+
Debentures	114,885	0	0	114,885	0	0
Long-term debt	34,959	0	0	10,366	0	24,593
Operating leases	3,798	256	933	835	583	1,191
Total obligations	<u>\$153,642</u>	<u>\$256</u>	<u>\$933</u>	<u>\$126,086</u>	<u>\$583</u>	<u>\$25,784</u>

Debentures relate to the aggregate principal amount of debentures issued by the Company in October 2009 (see "Convertible Debentures" below). Long-term debt at September 30, 2012 is comprised of U.S. \$25.0 million aggregate principal amount of secured notes issued through a note purchase and private shelf agreement and U.S. \$10.5 million non-amortizing term debt, net of deferred financing costs. The operating leases relate primarily to vehicle, equipment, warehousing, and facility leases and were entered into in the normal course of business.

As at November 14, 2012, the Company had no outstanding commitments to purchase property, plant and equipment.

## CAPITAL RESOURCES

### Cash

The Company had bank indebtedness of \$1.1 million as at September 30, 2012 (December 31, 2011 and September 30, 2011 – nil). Although cash provided by operations increased compared to 2011, the Company's bank indebtedness is higher than at the same time in 2011 largely due to a lower opening cash balance.

### Debt Facilities

On October 29, 2009, the Company issued US \$25.0 million aggregate principal amount of secured notes through a note purchase and private shelf agreement. The notes are non-amortizing, bear interest at 6.80% and mature October 29, 2016. Under the note purchase 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 March 9, 2012, the Company renewed its credit facility with its existing lenders. The committed lines under the facility are unchanged under the new facility. The table below summarizes amounts committed and drawn (USD converted at \$0.9837) as at September 30, 2012:

	<b>As at September 30, 2012</b>
Committed Line	\$70,133
Bank indebtedness	1,067
Long-term debt	<u>10,359</u>
Undrawn at September 30, 2012	<u>\$58,707</u>

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% (superseded facility – prime plus 0.50% to prime plus 1.50%) 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.

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

Net proceeds of the offering of approximately \$109.9 million were used by Ag Growth for general corporate purposes, to repay indebtedness, to fund acquisitions and to finance the expansion of the Company's storage bin product line.

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 at the dates indicated:

	<b># Common Shares</b>
December 31, 2010	12,543,440
Conversion of Debentures	<u>2,556</u>
December 31, 2011, September 30, 2012 and November 14, 2012	<u>12,545,996</u>

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” of common shares at that time. As of November 14, 2012, no common shares have been purchased under the normal course issuer bid.

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 September 30, 2012.

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. The remaining share awards vested as to 40,000 each on January 1, 2011 and January 1, 2012, however no common shares were issued on these vesting dates 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. There was no LTIP award related to fiscal 2011. The common shares purchased are held by the administrator until such time as they vest to the LTIP participants. As at September 30, 2012, a total of 242,956 common shares related to the LTIP had vested to the participants.

On May 11, 2012 the shareholders of Ag Growth authorized a new Share Award Incentive Plan (the “2012 SAIP”) which authorizes the Board to grant restricted Share Awards (“Restricted Awards”) and performance Share Awards (“Performance Awards”) to officers, employees or consultants of the Company but not to non-management directors. A total of 465,000 common shares are available for issuance under the 2012 SAIP. As at September 30, 2012, no Restricted Awards or Performance Awards have been granted.

A total of 29,879 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 three and nine months ended September 30, 2012, Ag Growth declared dividends to shareholders of \$7.5 million and \$22.6 million, respectively (2011 - \$7.5 million and \$22.6 million). Ag Growth’s policy is to pay monthly dividends. The Company’s Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be in the best interest of the Company. Financial results in 2012 are expected to be negatively impacted by a severe drought in the U.S. (see “Outlook”) however the Company’s dividend policy rate will not be altered in response to this short-term weather event.

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 the three and nine months ended September 30, 2012 were funded through cash on hand, cash from operations and bank indebtedness. The Company expects dividends in 2012 will be funded through cash on hand, cash from operations and bank indebtedness.

## **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)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
EBITDA	\$14,128	\$12,681	\$45,488	\$46,352
Stock based compensation	306	345	887	1,463
Non-cash interest expense	645	611	1,881	1,800
Translation (gain) loss on FX	(3,345)	5,232	(2,729)	3,156
Interest expense	(3,273)	(3,152)	(9,800)	(9,384)
Income taxes paid	(2,031)	(1,818)	(3,004)	(4,707)
Maintenance capital expenditures	<u>(692)</u>	<u>(553)</u>	<u>(3,144)</u>	<u>(2,682)</u>
Funds from operations (1)	<u>\$5,738</u>	<u>\$13,346</u>	<u>\$29,579</u>	<u>\$35,998</u>

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

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Cash provided by (used in) operating activities	\$14,828	\$11,797	\$20,029	\$10,335
Change in non-cash working capital	(8,351)	2,167	11,259	26,414
Settlement of SAIP option	0	0	1,495	1,998
Maintenance capital expenditures	(692)	(553)	(3,144)	(2,682)
Gain (loss) on sale of assets	<u>(47)</u>	<u>(65)</u>	<u>(60)</u>	<u>(67)</u>
Funds from operations (1)	<u>\$5,738</u>	<u>\$13,346</u>	<u>\$29,579</u>	<u>\$35,998</u>
Shares outstanding (2)	12,573,181	12,562,997	12,571,190	12,560,893
Funds from operations per share	\$0.46	\$1.06	\$2.35	\$2.87
Dividends declared per share	\$0.60	\$0.60	\$1.80	\$1.80
Payout ratio (1)	130%	57%	77%	63%

(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.

## 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 contracts with three Canadian chartered banks to partially hedge its foreign currency exposure on anticipated U.S. dollar sales transactions and as at September 30, 2012, had outstanding the following foreign exchange contracts:

<b>Forward Foreign Exchange Contracts</b>			
<b>Settlement Dates</b>	<b>Face Amount USD (000's)</b>	<b>Average Rate CAD</b>	<b>CAD Amount (000's)</b>
October – Dec 2012	\$20,000	\$0.99	\$19,999
January - Dec 2013	\$53,000	\$1.03	\$54,407
January – May 2014	\$15,000	\$1.04	\$15,584

The fair value of the outstanding forward foreign exchange contracts in place as at September 30, 2012 was a gain of \$2.6 million. Consistent with prior periods, the Company has elected to apply hedge accounting for these contracts and the unrealized gain has been recognized in other comprehensive income for the periods ended September 30, 2012.

Subsequent to September 30, 2012, the Company entered a number of foreign exchange forward contracts for the period June 2014 to October 2014 totalling U.S. \$15 million at an average rate of \$1.00.

## 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 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 Cyclical and General Economic Conditions***

The performance of the agricultural industry is cyclical. To the extent that the agricultural sector 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. 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 North American 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 North American and international manufacturers and suppliers; exchange controls; national and regional labour strikes; political risks and risks of 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 affect 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. Further, in the event of a reassessment of any of Ag Growth's tax filings by a taxation authority, Ag Growth would be required to deposit cash with the relevant taxation authority in order to file an objection against such reassessment, the amount of which deposit could be significant.

### ***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.

### **NEW ACCOUNTING PRONOUNCEMENTS**

In June 2012, the IASB issued Consolidated Financial Statements, Joint Arrangements and Disclosures of Interest in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11, and IFRS 12). The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief for all three standards by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments along with the adoption of IFRS 10, 11 and 12 on January 1, 2013.

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Company, are as outlined in Note 3 of the 2011 annual consolidated financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including 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 on October 4, 2011 (see "Acquisitions in Fiscal 2011"). 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 nine months ended September 30, 2012:

<i>(thousands of dollars)</i>	<b>Airlanco</b>
Revenue	\$8,282
Profit (loss)	\$1,137
Current assets <sup>1</sup>	\$2,970
Non-current assets <sup>1</sup>	\$8,886
Current liabilities <sup>1</sup>	\$767
Non-current liabilities <sup>1</sup>	\$0

Note 1 - Balance sheet as at September 30, 2012

There have been no material changes in Ag Growth's internal controls over financial reporting that occurred in the three month period ended September 30, 2012, 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, 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 & equipment and expenses related to corporate acquisition activity. 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 and stock-based compensation, 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 acquisitions including the acquisition of Airlanco (see “Acquisitions in Fiscal 2011”), 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 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, future sales and adjusted EBITDA 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)).

Unaudited Interim Condensed Consolidated Financial Statements

**Ag Growth International Inc.**

September 30, 2012

**Ag Growth International Inc.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
STATEMENTS OF FINANCIAL POSITION**

[in thousands of Canadian dollars]

	As at September 30, 2012 \$	As at December 31, 2011 \$
<b>ASSETS</b> <i>[note 13]</i>		
<b>Current assets</b>		
Cash and cash equivalents	—	6,839
Restricted cash <i>[notes 5[a] and 12[a]]</i>	679	2,439
Accounts receivable <i>[note 10]</i>	61,905	49,691
Inventory	64,374	64,558
Prepaid expenses and other assets	2,142	2,720
Income taxes recoverable	517	1,506
Current portion of derivative instruments <i>[note 16]</i>	1,408	—
	<b>131,025</b>	<b>127,753</b>
<b>Non-current assets</b>		
Property, plant and equipment, net	81,910	83,434
Goodwill <i>[note 8]</i>	64,898	65,876
Intangible assets, net <i>[note 7]</i>	73,020	75,510
Available-for-sale investment	2,800	2,800
Derivative instruments <i>[note 16]</i>	1,210	—
Deferred tax asset <i>[note 15]</i>	33,408	38,092
	<b>257,246</b>	<b>265,712</b>
Assets held for sale	1,101	1,101
<b>Total assets</b>	<b>389,372</b>	<b>394,566</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness <i>[note 13[a]]</i>	1,067	—
Accounts payable and accrued liabilities	25,328	22,264
Customer deposits	5,134	8,018
Dividends payable <i>[note 11[e]]</i>	2,509	2,509
Transaction and financing costs payable <i>[note 5[a]]</i>	492	1,938
Current portion of long-term debt <i>[note 13]</i>	7	16
Obligations under finance leases <i>[note 13]</i>	—	131
Current portion of derivative instruments <i>[note 16]</i>	—	1,828
Share award incentive plan <i>[note 12[e]]</i>	—	1,495
Provisions	2,235	2,222
	<b>36,772</b>	<b>40,421</b>
<b>Non-current liabilities</b>		
Long-term debt <i>[note 13]</i>	34,466	35,824
Convertible unsecured subordinated debentures <i>[note 14]</i>	108,949	107,202
Deferred tax liability <i>[note 15]</i>	8,950	8,960
	<b>152,365</b>	<b>151,986</b>
<b>Total liabilities</b>	<b>189,137</b>	<b>192,407</b>
<b>Shareholders' equity</b> <i>[note 11]</i>		
Common shares	153,394	151,039
Accumulated other comprehensive loss	(2,873)	(1,875)
Equity component of convertible debentures	5,105	5,105
Contributed surplus	4,018	5,341
Retained earnings	40,591	42,549
<b>Total shareholders' equity</b>	<b>200,235</b>	<b>202,159</b>
<b>Total liabilities and shareholders' equity</b>	<b>389,372</b>	<b>394,566</b>
Commitments and contingencies <i>[note 21]</i>		

See accompanying notes

On behalf of the Board of Directors:

\_\_\_\_\_  
(signed) Bill Lambert  
Director

\_\_\_\_\_  
(signed) John R. Brodie, FCA  
Director

**Ag Growth International Inc.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
STATEMENTS OF INCOME**

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

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
	\$	\$	\$	\$
<b>Sales</b>	<b>83,855</b>	83,341	<b>254,325</b>	238,517
Cost of goods sold <i>[note 6[d]]</i>	<b>59,535</b>	56,425	<b>175,302</b>	157,838
<b>Gross margin</b>	<b>24,320</b>	26,916	<b>79,023</b>	80,679
<b>Expenses</b>				
Selling, general and administrative <i>[note 6[e]]</i>	<b>13,946</b>	14,576	<b>42,260</b>	40,102
Other operating expense (income) <i>[note 6[a]]</i>	<b>23</b>	19	<b>(53)</b>	92
Finance costs <i>[note 6[c]]</i>	<b>3,273</b>	3,152	<b>9,800</b>	9,384
Finance expense (income) <i>[note 6[b]]</i>	<b>(1,254)</b>	1,857	<b>(1,167)</b>	870
	<b>15,988</b>	19,604	<b>50,840</b>	50,448
Profit before income taxes	<b>8,332</b>	7,312	<b>28,183</b>	30,231
Income tax expense <i>[note 15]</i>				
Current	<b>879</b>	1,155	<b>3,655</b>	4,029
Deferred	<b>952</b>	1,587	<b>3,904</b>	4,932
	<b>1,831</b>	2,742	<b>7,559</b>	8,961
<b>Profit for the period</b>	<b>6,501</b>	4,570	<b>20,624</b>	21,270
<b>Profit per share - basic</b> <i>[note 19]</i>	<b>0.52</b>	0.37	<b>1.65</b>	1.71
<b>Profit per share - diluted</b> <i>[note 19]</i>	<b>0.52</b>	0.36	<b>1.64</b>	1.69

*See accompanying notes*

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY**

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2012

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Retained earnings \$	Cash flow hedge \$	Foreign currency reserve \$	Available-for- sale reserve \$	Total equity \$
<b>As at January 1, 2012</b>	151,039	5,105	5,341	42,549	(1,340)	(1,123)	588	202,159
Profit for the period	—	—	—	20,624	—	—	—	20,624
Other comprehensive income (loss)	—	—	—	—	3,273	(4,377)	106	(998)
Share-based payment transactions <i>[notes 11 and 12]</i>	2,355	—	(1,323)	—	—	—	—	1,032
Dividends to shareholders <i>[note 11[e]]</i>	—	—	—	(22,582)	—	—	—	(22,582)
<b>As at September 30, 2012</b>	<b>153,394</b>	<b>5,105</b>	<b>4,018</b>	<b>40,591</b>	<b>1,933</b>	<b>(5,500)</b>	<b>694</b>	<b>200,235</b>

See accompanying notes

Ag Growth International Inc.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2011

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Retained earnings \$	Cash flow hedge \$	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 period	—	—	—	21,270	—	—	—	21,270
Other comprehensive income (loss)	—	—	—	—	(5,599)	5,624	588	613
Conversion of subordinated debentures	115	—	—	—	—	—	—	115
Share-based payment transactions [note 12]	(452)	—	(1,035)	—	—	—	—	(1,487)
Dividends to shareholders [note 11 [e]]	—	—	—	(22,582)	—	—	—	(22,582)
<b>As at September 30, 2011</b>	151,039	5,105	5,086	46,823	(2,633)	2,215	588	208,223

See accompanying notes

**Ag Growth International Inc.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
STATEMENTS OF COMPREHENSIVE INCOME**

[in thousands of Canadian dollars]

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	\$	\$	\$	\$
Profit for the period	<b>6,501</b>	4,570	<b>20,624</b>	21,270
Other comprehensive income (loss)				
Change in fair value of derivatives designated as cash flow hedges	<b>3,133</b>	(4,829)	<b>3,566</b>	(3,404)
Loss (gains) on derivatives designated as cash flow hedges recognized in net earnings in the current period	<b>537</b>	(1,651)	<b>889</b>	(4,185)
Income tax effect on cash flow hedges	<b>(974)</b>	1,663	<b>(1,182)</b>	1,990
Exchange differences on translation of foreign operations	<b>(4,505)</b>	7,472	<b>(4,377)</b>	5,624
Gain on available-for-sale financial assets	—	—	—	800
Income tax effect on available- for-sale financial assets	—	—	<b>106</b>	(212)
<b>Other comprehensive income (loss) for the period</b>	<b>(1,809)</b>	2,655	<b>(998)</b>	613
<b>Total comprehensive income for the period</b>	<b>4,692</b>	7,225	<b>19,626</b>	21,883

*See accompanying notes*

**Ag Growth International Inc.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
STATEMENTS OF CASH FLOWS**

[in thousands of Canadian dollars]

	Three-month period ended		Nine-month period ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Profit before income taxes	8,332	7,312	28,183	30,231
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	1,567	1,359	4,634	3,939
Amortization of intangible assets	956	858	2,871	2,798
Translation (gain) loss on foreign exchange	(3,345)	5,232	(2,684)	3,156
Non-cash component of interest expense	645	611	1,881	1,800
Stock-based compensation	306	345	887	1,463
Loss on sale of property, plant and equipment	47	65	60	67
Net change in non-cash working capital balances related to operations <i>[note 9]</i>	8,351	(2,167)	(11,259)	(26,414)
Settlement of SAIP obligation	—	—	(1,495)	(1,998)
Income taxes paid	(2,031)	(1,818)	(3,004)	(4,707)
<b>Cash provided by operating activities</b>	<b>14,828</b>	<b>11,797</b>	<b>20,074</b>	<b>10,335</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment	(957)	(1,509)	(4,232)	(7,524)
Acquisition of shares of Tramco, Inc., net of cash acquired <i>[note 5[b]]</i>	—	—	—	(9,946)
Transfer from restricted cash	—	—	1,760	592
Proceeds from sale of property, plant and equipment	22	143	69	437
Development of intangible assets	(353)	(200)	(1,101)	(1,011)
Transaction and financing costs paid	—	1,965	(1,446)	1,130
<b>Cash provided by (used in) investing activities</b>	<b>(1,288)</b>	<b>399</b>	<b>(4,950)</b>	<b>(16,322)</b>
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in bank indebtedness	(5,970)	(2,174)	1,067	—
Repayment of long-term debt	(2)	(2)	(5)	(318)
Repayment of obligations under finance leases	(41)	(141)	(131)	(396)
Dividends paid	(7,527)	(7,527)	(22,582)	(22,582)
Finance costs incurred	—	—	(312)	—
Purchase of shares in the market under the long-term incentive plan	—	—	—	(3,346)
<b>Cash used in financing activities</b>	<b>(13,540)</b>	<b>(9,844)</b>	<b>(21,963)</b>	<b>(26,642)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>—</b>	<b>2,352</b>	<b>(6,839)</b>	<b>(32,629)</b>
Cash and cash equivalents, beginning of period	—	—	6,839	34,981
<b>Cash and cash equivalents, end of period</b>	<b>—</b>	<b>2,352</b>	<b>—</b>	<b>2,352</b>
<b>Supplemental cash flow information</b>				
Interest paid	616	497	5,873	5,544

*See accompanying notes*

## **Ag Growth International Inc.**

### **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

September 30, 2012

#### **1. ORGANIZATION**

The unaudited interim condensed consolidated financial statements of Ag Growth International Inc. ["Ag Growth Inc."] for the three- and nine-month periods ended September 30, 2012 were authorized for issuance in accordance with a resolution of the directors on November 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 198 Commerce Drive, 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. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION**

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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ["IAS"] 34 – *Interim Financial Reporting* on a basis consistent with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. All significant accounting policies and standards have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements.

These unaudited interim condensed consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2011, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Ag Growth International Inc.**

### **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

September 30, 2012

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

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

Accounting measurements at interim dates, rather than at year-end, inherently involve a greater reliance on estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature to present fairly the consolidated financial position of the Company as at September 30, 2012.

#### **[c] Future accounting changes**

In June 2012, the IASB issued *Consolidated Financial Statements, Joint Arrangements and Disclosures of Interest in Other Entities: Transition Guidance [Amendments to IFRS 10, IFRS 11, and IFRS 12]*. The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief for all three standards by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments along with the adoption of IFRS 10, 11 and 12 on January 1, 2013.

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Company, are as outlined in note 5 of the 2011 annual consolidated financial statements.

#### **4. SEASONALITY OF BUSINESS**

Interim period sales and earnings historically reflect some seasonality. The third quarter is typically the strongest primarily due to high in-season demand at the farm level. Ag Growth's collections of accounts receivable are weighted towards the third and fourth quarters. This collection pattern, combined with seasonally high sales in the third quarter, result in accounts receivable levels increasing throughout the year and normally peaking in the third quarter. As a result of these working capital movements, historically, Ag Growth's use of its bank revolver is typically highest in the first and second quarters, begins to decline in the third quarter as collections of accounts receivable increase, and is repaid in the third or fourth quarter of each year. The seasonality of Ag Growth's business may be impacted by a number of factors including weather and the timing and quality of harvest in North America.

**Ag Growth International Inc.**

**NOTES TO UNAUDITED INTERIM CONDENSED  
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September 30, 2012

**5. BUSINESS COMBINATIONS**

**[a] Airlanco Inc. ["Airlanco"]**

Effective October 4, 2011, the Company acquired substantially all of the operating assets of Airlanco, a manufacturer of grain aeration and dust filtration systems. The Company acquired Airlanco to expand its catalogue of aeration and dust collection products. The purchase has been accounted for using the acquisition method with the results of Airlanco's operations included in the Company's net earnings from the date of acquisition. As at September 30, 2012, the Company had restricted cash of \$492 relating to the acquisition of Airlanco, and this restricted cash was transferred to the vendors subsequent to September 30, 2012.

**[b] 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.

At the request of the vendor, the purchase price was paid in two installments. The second installment was paid on January 5, 2011. Transaction costs of the acquisition are included in cash flows from investing activities. In the nine-month period ended September 30, 2012, the conditions related to the cash holdback were met and the Company transferred \$1,105 from restricted cash to the vendors. As at September 30, 2012, there are no restricted funds remaining.

**Ag Growth International Inc.**

**NOTES TO UNAUDITED INTERIM CONDENSED  
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[in thousands of Canadian dollars, except where otherwise noted and per share data]

September 30, 2012

**6. OTHER EXPENSES (INCOME)**

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>[a] Other operating expense (income)</b>				
Cash flow hedging	—	(8)	—	126
Net loss on disposal of property, plant and equipment	47	65	60	67
Other	(24)	(38)	(113)	(101)
	<u>23</u>	<u>19</u>	<u>(53)</u>	<u>92</u>
<b>[b] Finance expense (income)</b>				
Interest expense (income) to (from) banks	—	(8)	16	(237)
Loss (gain) on foreign exchange	(1,254)	1,865	(1,183)	1,107
	<u>(1,254)</u>	<u>1,857</u>	<u>(1,167)</u>	<u>870</u>
<b>[c] Finance costs</b>				
Interest on overdrafts and other finance costs	39	18	113	40
Interest, including non-cash interest, on debts and borrowings	634	569	1,906	1,679
Interest, including non-cash interest, on convertible debentures [note 14]	2,602	2,561	7,778	7,648
Finance charges payable (receivable) under finance lease contracts	(2)	4	3	17
	<u>3,273</u>	<u>3,152</u>	<u>9,800</u>	<u>9,384</u>
<b>[d] Cost of goods sold</b>				
Depreciation	1,417	1,254	4,194	3,589
Amortization of intangible assets	92	163	207	532
Warranty (recovery) provision	(261)	57	13	3
Cost of inventories recognized as an expense	58,287	54,951	170,888	153,714
	<u>59,535</u>	<u>56,425</u>	<u>175,302</u>	<u>157,838</u>

**Ag Growth International Inc.**

**NOTES TO UNAUDITED INTERIM CONDENSED  
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September 30, 2012

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>[e] Selling, general and administrative expenses</b>				
Selling, general and administrative	<b>12,667</b>	13,533	<b>38,395</b>	36,769
Amortization of intangible assets	<b>864</b>	695	<b>2,664</b>	2,266
Depreciation	<b>150</b>	105	<b>440</b>	350
Minimum lease payments recognized as an operating lease expense	<b>265</b>	243	<b>761</b>	717
	<b>13,946</b>	14,576	<b>42,260</b>	40,102
<b>[f] Employee benefits expense</b>				
Wages and salaries	<b>18,032</b>	19,612	<b>57,821</b>	55,346
Share-based payment transaction expenses [note 12[e]]	<b>306</b>	345	<b>887</b>	1,517
Pension costs	<b>477</b>	534	<b>1,521</b>	1,460
	<b>18,815</b>	20,491	<b>60,229</b>	58,323
Included in cost of goods sold	<b>12,988</b>	14,356	<b>41,229</b>	40,597
Included in general and administrative expenses	<b>5,827</b>	6,135	<b>19,000</b>	17,726
	<b>18,815</b>	20,491	<b>60,229</b>	58,323

**Ag Growth International Inc.**

**NOTES TO UNAUDITED INTERIM CONDENSED  
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**7. INTANGIBLE ASSETS**

	<u>\$</u>
<b>Balance, January 1, 2011</b>	72,345
Internal development	1,334
Amortization	(2,798)
Exchange differences	812
<b>Balance, September 30, 2011</b>	<u>71,693</u>
Internal development	677
Amortization	(978)
Exchange differences	(605)
Acquisition of subsidiaries	4,723
<b>Balance, December 31, 2011</b>	<u>75,510</u>
Internal development	1,101
Amortization	(2,871)
Exchange differences	(720)
<b>Balance, September 30, 2012</b>	<u><u>73,020</u></u>

**8. GOODWILL**

	<b>September 30,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
	<u>\$</u>	<u>\$</u>
<b>Balance, beginning of period</b>	<b>65,876</b>	62,355
Additions - acquisition of subsidiaries	—	3,087
Exchange differences	<b>(978)</b>	434
<b>Balance, end of period</b>	<u><b>64,898</b></u>	<u>65,876</u>

**Ag Growth International Inc.**

**NOTES TO UNAUDITED INTERIM CONDENSED  
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**9. CHANGES IN NON-CASH WORKING CAPITAL**

The changes in the non-cash working capital balances are calculated as follows:

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Accounts receivable	<b>3,121</b>	809	<b>(12,214)</b>	(21,730)
Inventory	<b>5,504</b>	(2,793)	<b>184</b>	(12,732)
Prepaid expenses and other assets	<b>598</b>	528	<b>578</b>	2,927
Accounts payable and accrued liabilities	<b>177</b>	(62)	<b>3,064</b>	4,890
Customer deposits	<b>(788)</b>	(652)	<b>(2,884)</b>	241
Provisions	<b>(261)</b>	3	<b>13</b>	(10)
	<b>8,351</b>	(2,167)	<b>(11,259)</b>	(26,414)

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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#### 10. 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:

	September 30, 2012 \$	December 31, 2011 \$
Total accounts receivable	62,394	50,188
Less allowance for doubtful accounts	(489)	(497)
<b>Total accounts receivable, net</b>	<b>61,905</b>	<b>49,691</b>
<b>Of which</b>		
Neither impaired nor past due	42,784	33,412
Not impaired and past the due date as follows:		
Within 30 days	11,649	9,356
31 to 60 days	4,634	2,761
61 to 90 days	1,369	957
Over 90 days	1,958	3,702
Less allowance for doubtful accounts	(489)	(497)
<b>Total accounts receivable, net</b>	<b>61,905</b>	<b>49,691</b>

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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#### 11. EQUITY

##### [a] Common shares

###### Authorized

Unlimited voting common shares without par value

###### Issued

12,471,648 common shares

	Number #	Amount \$
<b>Balance, January 1, 2011</b>	12,399,550	151,376
Purchase of common shares under LTIP	(67,996)	(3,346)
Conversion of subordinated debentures	2,556	115
Settlement of SAIP obligation - vested shares	77,510	2,894
<b>Balance, December 31, 2011</b>	12,411,620	151,039
Settlement of LTIP obligation - vested shares <i>[note 12[e]]</i>	60,028	2,355
<b>Balance, September 30, 2012</b>	<b>12,471,648</b>	<b>153,394</b>

The 12,471,648 common shares as at September 30, 2012 are net of 74,348 common shares with a stated value of \$3,072 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

The 12,411,620 common shares at September 30, 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.

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### [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 that time. The normal course issuer bid terminates on November 20, 2012 unless terminated earlier by Ag Growth. In the year ended December 31, 2011 and the nine months ended September 30, 2012, no common shares were purchased under the normal course issuer bid.

#### [c] Contributed surplus

	<b>Nine-month period ended September 30, 2012</b>	<b>Year ended December 31, 2011</b>
	\$	\$
<b>Balance, beginning of period</b>	<b>5,341</b>	6,121
Equity-settled director compensation <i>[note 12[c]]</i>	<b>250</b>	345
Obligation under LTIP <i>[note 12[a]]</i>	<b>637</b>	1,769
Settlement of LTIP obligation - vested shares	<b>(2,210)</b>	(2,894)
<b>Balance, end of period</b>	<b>4,018</b>	5,341

#### [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.

## **Ag Growth International Inc.**

### **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Available-for-sale reserve**

The available-for-sale reserve contains the cumulative change in the fair value of available-for-sale investments. Gains and losses are reclassified to the interim condensed consolidated statements of income when the available-for-sale investments are impaired or derecognized.

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

In the three-month period ended September 30, 2012, the Company declared dividends of \$7,527 or \$0.60 per common share [2011 - \$7,527 or \$0.60 per common share]. In the nine-month period ended September 30, 2012, the Company declared dividends of \$22,582 or \$1.80 per common share [2011 - \$22,582 or \$1.80 per common share]. Ag Growth's dividend policy is to pay cash dividends on or about the 30th day 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 September 30, 2012, the Company declared dividends of \$0.20 per common share to shareholders of record on October 31, 2012.

## **12. 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 January 1st 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.

## **Ag Growth International Inc.**

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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 interim condensed consolidated statement of income items by function depending on the role of the respective management member. During the three- and nine-month periods ended September 30, 2012, \$212 and \$637 [2011- \$425 and \$1,327] were expensed in the LTIP. Additionally, there is \$187 in restricted cash related to the LTIP.

The administrator is not required to purchase common shares in 2012 as there was no LTIP award related to fiscal 2011. During the nine-month period ended September 30, 2011, the administrator purchased 67,996 common shares in the market for \$3,346. 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. The LTIP was terminated with effect for fiscal 2012.

#### **[b] Share award incentive plan ["SAIP"]**

##### **The 2012 SAIP**

On May 11, 2012 the shareholders of Ag Growth approved a Share Award Incentive Plan [the "2012 SAIP"] which authorizes the Board to grant restricted Share Awards ["Restricted Awards"] and Performance Share Awards ["Performance Awards"] to persons who are officers, employees or consultants of the Company and its affiliates. Share Awards may not be granted to Non-Management Directors.

A total of 465,000 common shares are available for issuance under the 2012 SAIP. At the discretion of the Board, the 2012 SAIP provides for cumulative adjustments to the number of common shares to be issued pursuant to Share Awards on each date that dividends are paid on the common shares. The Company shall have the option of settling any amount payable in respect of a Share Award by common shares issued from the treasury of the Company or, with the consent of the grantee, cash in an amount equal to the fair market value of such common shares.

Each Restricted Award will entitle the holder to be issued the number of the common shares designated in the Restricted Award with such common shares to be issued as to one-third on each of the third, fourth and fifth anniversary dates of the date of grant, or such earlier or later dates.

Each Performance Award will entitle the holder to be issued as to one-third on each of the first, second and third anniversary dates of the date of grant, or such earlier or later dates, the number of common shares designated in the Performance Award multiplied by a Payout Multiplier. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined

## **Ag Growth International Inc.**

### **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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measures in respect of the applicable period. The Payout Multiplier may not be less than 0% or more than 200%.

As at September 30, 2012 no Restricted Awards and no Performance Awards have been granted.

#### **The 2007 SAIP**

On May 10, 2007, the shareholders of Ag Growth reserved for issuance 220,000 Share Awards under a Share Award Incentive Plan [the "2007 SAIP"]. All of the 220,000 common shares reserved for issue under the 2007 SAIP were issued and they vested as to one-third on each of January 1, 2010, 2011, and 2012. No further Share Awards may be granted, and no further common shares may be issued under the 2007 SAIP. There are no Share Awards outstanding as at September 30, 2012. For the three- and nine-month periods ended September 30, 2012, Ag Growth recorded an expense related to the 2007 SAIP of nil [2011 - \$221 and \$161].

#### **[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 Directors' 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 periods ended September 30, 2012 and 2011, the Directors elected to receive the majority of their remuneration in common shares. For the three- and nine-month periods ended September 30, 2012, an expense of \$94 and \$250 [2011 - \$141 and \$351] 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.

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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On May 11, 2012, the shareholders of Ag Growth approved an increase in the total number of common shares issuable pursuant to the DDCP by 35,000 to a total of 70,000, subject to adjustment in lieu of dividends, if applicable. For the three- and nine-month periods ended September 30, 2012, 2,724 and 6,735 common shares were granted under the DDCP and as at September 30, 2012, a total of 29,879 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.

On May 11, 2012, the shareholders of Ag Growth approved an amended management compensation structure which included the termination of the Option Plan. Accordingly, as at September 30, 2012, no options were available for grant [December 31, 2011 - 935,325].

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

For the three- and nine-month periods ended September 30, 2012, an expense of \$306 and \$887 [2011 - \$345 and \$1,517] was recognized for employee and Director services rendered.

The total carrying amount of the liability for the SAIP as at September 30, 2012 was nil [December 31, 2011 - \$1,495].

A summary of the status of the options under the 2007 SAIP is presented below:

	<b>Nine-month period ended September 30, 2012</b>	<b>Year ended December 31, 2011</b>
	<b>Shares #</b>	<b>Shares #</b>
<b>Outstanding, beginning of period</b>	<b>40,000</b>	80,000
Exercised	<b>(40,000)</b>	(40,000)
<b>Outstanding, end of period</b>	<b>—</b>	40,000

**Ag Growth International Inc.**

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The exercise price on all 2007 SAIP awards was \$0.10 per common share. All outstanding options under the 2007 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:

	<b>Nine-month period ended September 30, 2012</b>	<b>Year ended December 31, 2011</b>
	#	#
<b>Outstanding, beginning of period</b>	<b>134,376</b>	143,890
Vested	<b>(60,028)</b>	(77,510)
Granted	—	67,996
<b>Outstanding, end of period</b>	<b>74,348</b>	134,376

**13. LONG-TERM DEBT AND OBLIGATIONS UNDER FINANCE  
LEASES**

	<b>Interest rate %</b>	<b>Maturity</b>	<b>September 30, 2012 \$</b>	<b>December 31, 2011 \$</b>
<b>Current portion of interest-bearing loans and borrowings</b>				
Obligations under finance leases	6.5	2012	—	131
GMAC loans	0.0	2014	7	16
<b>Total current portion of interest-bearing loans and borrowings</b>			<b>7</b>	<b>147</b>
<b>Non-current interest-bearing loans and borrowings</b>				
Series A secured notes [U.S. dollar denominated]	6.8	2016	<b>24,593</b>	25,425
Term debt [U.S. dollar denominated]	3.8	2014	<b>10,359</b>	10,709
GMAC loans	0.0	2014	7	3
<b>Total non-current interest-bearing loans and borrowings</b>			<b>34,959</b>	36,137
			<b>34,966</b>	36,284
Less deferred financing costs			<b>493</b>	313
<b>Total interest-bearing loans and borrowings</b>			<b>34,473</b>	35,971

## **Ag Growth International Inc.**

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#### **[a] Bank indebtedness**

Ag Growth has operating facilities of \$10.0 million and U.S. \$2.0 million and may also draw on its term loan facility for general operating purposes. The operative and term loan facilities bear interest at prime to prime plus 1.0% per annum based on performance calculations. The effective interest rate during the nine-month period ended September 30, 2012 on Ag Growth's Canadian dollar operating facility was 3.1% [2011 - 3.5%] and on its U.S. dollar operating facility was 3.4% [2011 - 3.8%]. As at September 30, 2012, there was \$1.1 million [2011 - nil] outstanding under these facilities. The facilities mature March 8, 2016 or three months prior to the maturity date of the convertible unsecured debentures, unless refinanced on terms acceptable to the lenders.

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 to prime plus 1.0% based on performance calculations. As at September 30, 2012, term loans of U.S. \$10,530 were outstanding [December 31, 2011 - U.S. \$10,530]. Ag Growth's credit facility provides for term loans of up to \$38,000 and U.S. \$20,500 and includes lender approval to increase the size of the facility by \$25 million.

The facilities mature on the earlier of March 8, 2016 or three months prior to maturity date of convertible unsecured subordinated debentures [*note 14*], unless refinanced on terms acceptable to the lenders.

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

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#### [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. The covenant calculations exclude the convertible unsecured subordinated debentures from the definition of debt. As at September 30, 2012 and December 31, 2011, Ag Growth was in compliance with all financial covenants.

#### 14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

	September 30, 2012	December 31, 2011
	\$	\$
Principal amount	114,885	114,885
Equity component	(7,475)	(7,475)
Accretion	3,840	2,770
Financing fees, net of amortization	(2,301)	(2,978)
<b>Convertible unsecured subordinated debentures</b>	<b>108,949</b>	<b>107,202</b>

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. 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. In the nine-month period ended September 30, 2012, no Debentures were exercised [year ended December 31, 2011 - 115 Debentures were exercised and 2,556 common shares were issued]. As at September 30, 2012, Ag Growth has reserved 2,554,136 common shares for issuance upon conversion of the Debentures.

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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 19]. 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 nine-month period ended September 30, 2012, the Company recorded an accretion expense of \$1,070 [2011 - \$990], non-cash interest expense related to financing costs of \$677 [2011 - \$626] and interest expense on the 7% coupon of \$6,031 [2011 - \$6,030]. 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 at \$5,105, net of income tax of \$2,041, and its pro rata share of financing costs of \$329.

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**15. INCOME TAXES**

The major components of income tax expense for the nine-month periods ended September 30, 2012 and 2011 are as follows:

**Unaudited interim condensed consolidated statements of income**

	<b>2012</b>	<b>2011</b>
	<u>\$</u>	<u>\$</u>
<b>Current tax expense</b>		
Current income tax charge	3,655	4,029
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	3,904	4,932
<b>Income tax expense reported in the interim condensed consolidated statements of income</b>	<u>7,559</u>	<u>8,961</u>

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

	<b>2012</b>	<b>2011</b>
	<u>\$</u>	<u>\$</u>
<b>Deferred tax related to items charged or credited directly to other comprehensive income during the period</b>		
Unrealized loss (gain) on derivatives and available-for- sale investment	1,076	(1,778)
Exchange differences on translation of foreign operations	(306)	333
<b>Income tax charged directly to other comprehensive income</b>	<u>770</u>	<u>(1,445)</u>

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

	<b>As at September 30, 2012</b>	<b>As at December 31, 2011</b>
	<b>\$</b>	<b>\$</b>
Inventories	<b>(197)</b>	(200)
Property, plant and equipment and other assets	<b>(11,038)</b>	(10,145)
Intangible assets	<b>(12,832)</b>	(12,900)
Deferred financing costs	<b>(108)</b>	(63)
Accruals and long-term provisions	<b>1,592</b>	1,642
Tax loss carryforwards expiring between 2020 and 2029	<b>14,612</b>	16,809
Investment tax credit carryforwards expiring between 2025 and 2030	<b>4,880</b>	4,627
Canadian exploration expenses	<b>29,154</b>	29,157
Capitalized development expenditures	<b>(631)</b>	(465)
Convertible debentures	<b>(994)</b>	(1,279)
SAIP liability	<b>—</b>	397
Equity impact LTIP	<b>827</b>	1,283
Other comprehensive income	<b>(807)</b>	269
<b>Net deferred tax assets</b>	<b>24,458</b>	29,132

**Reflected in the consolidated statements of financial position as follows:**

Deferred tax assets	<b>33,408</b>	38,092
Deferred tax liabilities	<b>(8,950)</b>	(8,960)
<b>Deferred tax assets, net</b>	<b>24,458</b>	29,132

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 deductible temporary differences as of the reporting date and as at December 31, 2011.

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The Company has recorded accumulated tax losses related to its Finnish operations of 2,190 Euros. Based on historical results on an expectation of future profits, a deferred tax asset has been recognized for these losses as it is probable they will be utilized.

At September 30, 2012, there was no recognized deferred tax liability [December 31, 2011 - 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, 2011 - \$622].

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 attached to the payment of dividends in either 2012 or 2011 by the Company to its shareholders.

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#### **16. 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 September 30, 2012 and December 31, 2011.

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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 unaudited interim condensed consolidated statements of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant unaudited interim condensed consolidated statements 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 September 30, 2012 and December 31, 2011, including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at September 30, 2012 and 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 September 30, 2012, Ag Growth's U.S. dollar denominated debt totalled U.S. \$35.5 million [2011 - U.S. \$35.5 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:

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<b>Settlement dates</b>	<b>Face value</b>	<b>Average rate</b>
	U.S. \$	Cdn. \$
October - December 2012	20,000	0.99
January - December 2013	53,000	1.03
January - May 2014	15,000	1.04

Subsequent to September 30, 2012, the Company entered into a number of foreign exchange forward contracts for the period June 2014 to October 2014 totalling \$15 million at an average rate of \$1.00.

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 losses and gains 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 nine-month period ended September 30, 2012 were U.S. \$150.1 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. \$103.1 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$15 million increase or decrease in sales and a total increase or decrease of \$10.3 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 an increase or decrease in the foreign exchange gain of \$4 million and an increase or decrease to other comprehensive income of \$4 million.

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 income for the period and for the three- and nine-month periods ended September 30, 2012, the Company realized a loss on its foreign exchange contracts of \$537 and \$889 [2011 - gains of \$1,651 and \$4,185], respectively.

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The open foreign exchange forward contracts as at September 30, 2012 are as follows:

Notional amount of currency sold U.S. \$	Notional Canadian dollar equivalent		
	Contract amount \$	Cdn \$ equivalent \$	Unrealized gain \$
<b>88,000</b>	<b>1.0226</b>	<b>89,990</b>	<b>2,618</b>

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 unaudited interim condensed consolidated statements of income.

The cash flow hedges of the expected future sales were assessed to be highly effective and a net unrealized gain of \$2,618, with a deferred tax liability of \$701 relating to the hedging instruments, is included in other comprehensive income (loss).

#### 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 September 30, 2012 and December 31, 2011. The Company had \$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 \$27 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 interim condensed consolidated statements of financial position.

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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 September 30, 2012, the Company had three customers [December 31, 2011 - two customers] that accounted for approximately 18% [December 31, 2011 - 14%] 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 that 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.

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**[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 interim condensed consolidated financial statements:

	September 30, 2012		December 31, 2011	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Financial assets</b>				
Loans and receivables				
Cash and cash equivalents	—	—	6,839	6,839
Restricted cash	679	679	2,439	2,439
Accounts receivable	61,905	61,905	49,691	49,691
Derivative instruments	2,618	2,618	—	—
<b>Financial liabilities</b>				
Other financial liabilities				
Bank indebtedness	1,067	1,067	—	—
Interest-bearing loans and borrowings	34,966	38,805	36,153	39,593
Accounts payable, accrued liabilities and provisions	27,563	27,563	24,486	24,486
Finance lease obligations	—	—	131	131
Dividends payable	2,509	2,509	2,509	2,509
Transaction and financing costs payable	492	492	1,938	1,938
Derivative instruments	—	—	1,828	1,828
Convertible unsecured subordinated debentures	108,949	114,272	107,202	107,671

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.

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

- Cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness, dividends payable, finance lease obligations, 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.

#### **17. 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 September 30, 2012 and December 31, 2011, 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. Net debt includes long-term debt plus the liability component of Debentures, cash and cash equivalents and bank indebtedness.

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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 cyclicality and acquisitions. The table below calculates the ratio based on EBITDA achieved in the previous 12 months:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	\$	\$
Net debt	<b>144,482</b>	136,187
EBITDA	<b>55,174</b>	56,038
Ratio	<b>2.62 times</b>	2.43 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 cyclicality and acquisitions:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	\$	\$
Net debt	<b>144,482</b>	136,187
Shareholders' equity	<b>200,235</b>	202,159
Ratio	<b>0.72 times</b>	0.67 times

## 18. RELATED PARTY DISCLOSURES

### 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 in the nine-month period ended was \$0.1 million [2011 - \$0.4 million]. Included in accounts payable and accrued liabilities as at September 30, 2012 is \$0.1 million [December 31, 2011 - \$0.5 million] owing to BDP. These transactions are measured at the exchange amount and were incurred during the normal course of business.

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#### 19. EARNINGS PER SHARE

Net earnings per share are 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:

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net profit attributable to shareholders for basic and diluted earnings per share	<u>6,501</u>	4,570	<u>20,624</u>	21,270
Numerator for diluted earnings per share	<u>6,501</u>	4,570	<u>20,624</u>	21,270
Basic weighted average number of shares	<u>12,471,648</u>	12,411,620	<u>12,471,648</u>	12,427,067
Dilutive effect of DDCP	<u>27,185</u>	17,001	<u>25,194</u>	15,378
Dilutive effect of LTIP	<u>74,348</u>	134,376	<u>74,348</u>	118,448
Diluted weighted average number of shares	<u>12,573,181</u>	12,562,997	<u>12,571,190</u>	12,560,893
Basic earnings per share	<u>0.52</u>	0.37	<u>1.65</u>	1.71
Diluted earnings per share	<u>0.52</u>	0.36	<u>1.64</u>	1.69

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

In the three- and nine-month periods ended September 30, 2012 and 2011, the convertible unsecured subordinated debentures were excluded from the calculation of the above diluted net earnings per share because their effect was anti-dilutive.

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2012

#### 20. 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 that internally is provided to the Chief Executive Officer ["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 investments	
	Three-month period ended		Nine-month period ended		As at	As at
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	December 31, 2011
	\$	\$	\$	\$	\$	\$
Canada	17,998	17,129	64,112	52,302	150,660	152,411
United States	43,089	51,395	135,708	145,714	62,064	64,787
International	22,768	14,817	54,505	40,501	9,904	10,422
	83,855	83,341	254,325	238,517	222,628	227,620

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.

#### 21. COMMITMENTS AND CONTINGENCIES

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

As of the reporting date, the Company had no commitments to purchase property, plant and equipment.

**Ag Growth International Inc.**

**NOTES TO UNAUDITED INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

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

September 30, 2012

**[b] Letters of credit**

As at September 30, 2012, the Company has outstanding letters of credit in the amount of \$1,298 [December 31, 2011 - \$319].

**[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	971
After one year	2,827
	<u>3,798</u>

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

During the three- and nine-month periods ended September 30, 2012, the Company recognized an expense of \$242 and \$761 [2011 - \$243 and \$717] for leasing contracts. This amount relates only to minimum lease payments.

**[d] 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.

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Transfer Agent: Computershare Investor Services Inc.

Shares Listed: Toronto Stock Exchange  
Stock Symbol: AFN



#### **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  
Paul Brisebois, Vice President, Marketing  
Tim Close, Vice President, Strategic Planning and Development  
Gurcan Kocdag, Vice President, Storage and Conditioning  
Nicolle Parker, Vice President, Finance and Integration  
Craig Nimegeers, Vice President, Engineering  
Arto Sainio, Managing Director, European Operations  
Tom Zant, Vice President, Commercial  
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)).