

**FOR IMMEDIATE RELEASE**



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**Ag Growth Announces First Quarter Results; Declares Dividends**

Winnipeg, MB, May 10, 2013 – Ag Growth International Inc. (TSX: AFN) (“Ag Growth”, the “Company” or “AGI”) today reported its financial results for the three month period ended March 31, 2013, and declared dividends for June, July and August 2013.

**Overview of Results**

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
Trade sales (1)	\$59,913	\$72,291
Adjusted EBITDA	\$7,246	\$12,162
Net profit	\$3,399	\$5,299
Diluted profit per share	\$0.26	\$0.42

(1) See “Non-IFRS Measures”.

Trade sales and adjusted EBITDA decreased compared to the prior year due to the impact of the severe U.S. drought in 2012. A decrease in sales and adjusted EBITDA was expected as drought events most often impact the first half of the fiscal year following the drought, particularly the first quarter, due to higher than typical dealer inventory levels and lower end-user demand that results from negative sentiment and reduced grain handling requirements. The U.S. drought in 2012 was the most severe in over 50 years and accordingly its impact on the Company’s business was significant. AGI’s outlook for both on-farm and commercial activity has improved substantially in recent months and accordingly management does not anticipate the impact of 2012 U.S. drought to extend beyond the second quarter of 2013 (see “Outlook”).

“As expected, our first quarter results reflect the severity of the 2012 U.S. drought,” said Gary Anderson, President and Chief Executive Officer. “However, with the arrival of the 2013 planting season and a new crop year, optimism is returning to the marketplace and we can now look beyond the drought towards to what may be a very exciting year.”

“We are beginning to see our backlog for portable handling equipment increase in response to improved moisture conditions in the corn-belt and a very positive USDA

forecast for over 97 million acres of planted corn. Our commercial backlog has increased significantly in recent months, due to improving sentiment in the U.S. and our rapidly growing international business. These facilities are in the process of increasing their capacity for the foreseeable future. Offshore, we recently entered into our largest ever contract, a \$42 million dollar agreement that includes \$28 million of commercial handling, aeration and storage equipment, and \$14 million in related services, to a single customer in Ukraine. All said, our order backlogs across all business lines today are much higher than the pre-drought order book we had at this time in 2012.”

“I believe we are well positioned to capitalize on what we expect will be long-term, positive agricultural fundamentals. We recently undertook a market study to assess our positioning in the portable grain handling space in the U.S. and were very pleased to see that our market share, brand strength and customer satisfaction levels scored every bit as strongly as we expected. The strength of our commercial brands remain evident in both our domestic and offshore customer base and our ability to bundle this high performance equipment with an expanding storage product line has contributed to rapid international growth. Our talented international sales team continues to grow relationships and AGI brand presence in offshore markets. We remain very positive about our future growth in these markets.”

“We are very enthusiastic with respect to AGI’s prospects in 2013 and beyond. Although we expect results for our second quarter will reflect the lingering effects of the 2012 drought, we anticipate the combination of U.S. planting intentions, improving moisture conditions in the corn-belt and our rapidly growing commercial and offshore order books will contribute to a strong second half.”

## **Outlook**

U.S. farmers may plant 97.3 million acres of corn in 2013, the highest level since 1936, and harvest an all-time record crop of over 14 billion bushels, according to the USDA’s March 2013 Prospective Plantings report and its 2013 Agricultural Outlook Forum. If achieved, the projected harvest would represent a 35% increase over 2012 in corn production, the primary demand driver for the Company’s portable grain handling equipment. The USDA forecast, combined with greatly improved moisture levels in many key areas of the corn-belt and a late planting season, has resulted in an optimistic outlook for portable grain handling demand in the second half of 2013.

Demand for portable grain handling equipment in the second quarter of 2013, however, is expected to be muted due to the carryover impact of the U.S. drought. Although moisture conditions have improved significantly in recent weeks and the Company’s backlog currently exceeds 2012 levels, scheduled deliveries for the second quarter of 2013 are lower than Q2 2012 deliveries and the Company does not expect in-season activity to stimulate significant demand until the third quarter. The anticipated decrease in sales of portable equipment in the second quarter of 2013 is not, however, expected to be as significant as the year-over-year change experienced in the first quarter of 2013.

The Company's commercial grain handling backlog has increased substantially in recent months and is significantly higher than the backlog at the same time in 2012. AGI's recovery from the 2012 U.S. drought in the commercial space has occurred more quickly than anticipated and management expects domestic and international demand will result in second quarter commercial equipment sales levels approximating the strong sales achieved in the second quarter of 2012. Based on improving sentiment and a growing order book management expects robust demand for commercial equipment to continue in the second half of 2013.

AGI enjoyed great success offshore in 2012 and that momentum has continued into 2013. Quoting activity remains at record highs and the Company's international back order is significantly higher than at the same time in 2012. The Company recently entered into a \$42 million agreement to supply \$28 million of grain handling, aeration and storage equipment and \$14 million in lower margin contracted products and services to a single customer in Ukraine, our largest ever single contract. In addition, our investment in two sales offices in South America in 2011 is expected to result in significant sales growth in Latin America in 2013.

On balance, although the U.S. drought of 2012 is anticipated to negatively impact the second quarter of 2013, the lingering effects of the drought are expected to dissipate later in the quarter with the arrival of the new crop season. Accordingly, based on current conditions, management expects adjusted EBITDA in the second quarter to fall below the strong levels achieved in 2012. However, the anticipated decrease is not expected to be as significant as the year-over-year decrease experienced in the first quarter of 2013.

Management's outlook for the second half of 2013 remains optimistic. Moisture levels in the United States corn-belt have improved significantly and if realized the current forecast for a 35% increase in corn production over 2012 should greatly benefit demand for grain handling equipment. The Company's international business continues to grow and we remain confident that the talent of our sales teams, our growing relationships offshore and the strength of our product offering will enable this growth to be sustained.

Consistent with prior years, demand in 2013, particularly in the second half, will be influenced by weather patterns, crop conditions, the timing of harvest and conditions during harvest. Yield per acre and the number of acres ultimately harvested may be impacted by dry conditions that persist in some regions of the U.S., particularly in the Great Plains, and the likelihood of regional flooding in western Canada. Changes in global macro-economic factors, including the availability of credit in new markets, also may influence demand, primarily for commercial grain handling and storage products. Results may also be impacted by changes in steel and other material input costs and the rate of exchange between the Canadian and U.S. dollars.

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## Dividends

AGI today announced the declaration of cash dividends of \$0.20 per common share for the months of June, July and August 2013. The dividends are eligible dividends for Canadian income tax purposes. AGI's current annualized cash dividend rate is \$2.40 per share.

The table below sets forth the scheduled payable and record dates:

Monthly dividend	Payable date	Record date
June 2013	July 15, 2013	June 28, 2013
July 2013	August 15, 2013	July 31, 2013
August 2013	September 13, 2013	August 30, 2013

## MD&A and Financial Statements

AGI's financial statements and management's discussion and analysis for the three month period ended March 31, 2013 can be obtained at <http://media3.marketwire.com/docs/Q1aggrowth623.pdf> and will also be available electronically from SEDAR ([www.sedar.com](http://www.sedar.com)) or from Ag Growth's website ([www.aggrowth.com](http://www.aggrowth.com)).

## Conference Call

AGI will hold a conference call on Friday, May 10, 2013, at 2:00 p.m. EST to discuss its results for the three month period ended March 31, 2013. To participate in the conference call, please dial 1-866-226-1792 or for local access dial 416-340-2216. An audio replay of the call will be available for seven days. To access the audio replay, please dial 1-800-408-3053 or for local access dial 905-694-9451. Please quote pass code 4173771.

## Annual General Meeting

AGI's annual shareholders meeting will be held on Friday, May 10, 2013 at 10:00 a.m. EST at the King Edward Hotel, 37 King Street East, Toronto, Ontario. Following the AGM a representative from AGI's international sales team will deliver a presentation on the Company's opportunities in global markets. The presentation will be webcast at approximately 10:15 a.m. EST and can be viewed at <http://www.gowebcasting.com/4287>. A replay of the webcast will be available for seven days following the AGM.

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## Company Profile

Ag Growth International Inc. is a leading manufacturer of portable and stationary grain handling, storage and conditioning equipment, including augers, belt conveyors, grain storage bins, grain handling accessories, grain aeration equipment and grain drying systems. AGI has eleven manufacturing facilities in Canada, the United States, the United Kingdom and Finland, and its sales, marketing, and distribution system distributes product in 48 states, nine provinces, and internationally.

For More Information Contact:

Investor Relations

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### ***Non-IFRS Measures***

*References to “EBITDA” are to profit before income taxes, finance costs, depreciation, amortization, and goodwill and intangible impairment. References to “Adjusted EBITDA” are to EBITDA before the Company’s gain or loss on foreign exchange, gains or losses on the sale of property, plant & equipment and expenses related to corporate acquisition activity.. References to “trade sales” are to sales excluding the gain or loss on foreign exchange. 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. Management believes that, in addition to sales, profit or loss and cash flows from operating, investing, and financing activities, trade sales, EBITDA, Adjusted EBITDA and funds from operations are useful supplemental measures in evaluating the Company’s performance. Trade sales, EBITDA, Adjusted EBITDA and funds from operations are not financial measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Management cautions investors that trade sales, EBITDA, Adjusted EBITDA and funds from operations should not replace sales or 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. Ag Growth’s method of calculating trade sales, EBITDA, Adjusted EBITDA and funds from operations may differ from the methods used by other issuers.*

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### ***Forward-Looking Statements***

*This press release 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 press release include statements relating to the benefits of acquisitions, our business and strategy, including our outlook for our financial and operating performance, growth in sales to developing markets, the impact of crop conditions in our market areas, the impact of current economic conditions on the demand for our products, 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, weather patterns, crop yields, crop conditions, seasonality, industry cyclicality, volatility of production costs, commodity prices, foreign exchange rates, competition and the cost and availability of capital for our customers. These risks and uncertainties are described under “Risks and Uncertainties” in our 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.*

**AG GROWTH INTERNATIONAL INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Dated: May 10, 2013**

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", “AGI”, the "Company", "we", "our" or "us") for the year ended December 31, 2012 and the unaudited interim condensed consolidated financial statements of the Company for the three month period ended March 31, 2013. 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**

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”.

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
Trade sales (1)	\$59,913	\$72,291
Adjusted EBITDA (1)	\$7,246	\$12,162
Net Profit	\$3,399	\$5,299
Diluted profit per share	\$0.26	\$0.42

(1) See “Non-IFRS Measures”.

Trade sales and adjusted EBITDA decreased compared to the prior year primarily due to the impact of the severe U.S. drought in 2012. A decrease in sales and adjusted EBITDA was expected as drought events most often impact the first half of the fiscal year following the drought, particularly the first quarter, due to higher than typical dealer inventory levels and lower end-user demand that results from negative sentiment and reduced grain handling requirements. The U.S. drought in 2012 was the most severe in over 50 years and accordingly its impact on the Company’s business was significant. AGI’s outlook for both on-farm and commercial activity has improved substantially in recent months and accordingly management does not anticipate the impact of 2012 U.S. drought to extend beyond the second quarter of 2013 (see “Outlook”).

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

Trade sales in the first quarter of 2013 decreased \$12.4 million or 17% compared to the prior year. A decrease was expected due to the carryover impact of the U.S. drought and for that reason U.S. sales decreased \$7.4 million or 17% compared to the first quarter of 2012. Trade sales in Canada decreased against the record Q1 Canadian sales figure reported in 2012 due in part to a change in the buying patterns of a significant customer. Offshore, although the Company's backlog is significantly higher than in 2012, sales decreased quarter over quarter as shipments were impacted by the timing of customer commitments.

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

The Company's gross margin percentage for the quarter ended March 31, 2013 was 35.2% (2012 - 35.2%). The gross margin percentage remained consistent with the prior year despite lower production volumes and a decrease in sales of higher margin portable grain handling products. The Company was able maintain margins on its portable equipment due to pricing discipline and proactively adjusting workforce levels in response to decreased demand. Gross margin on commercial equipment increased slightly compared to the first quarter of the prior year due primarily to operational initiatives implemented in 2012.

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

Adjusted EBITDA in the first quarter of 2013 was \$7.2 million (2012 - \$12.2 million). The decrease compared to the prior year was expected as drought in the U.S. materially impacted demand, particularly for higher margin portable grain handling equipment, while adjusted EBITDA in the first quarter of 2012 was quite strong as it reflected the positive agricultural fundamentals that were in place prior to the appearance of the drought later in the year.

### **Diluted profit per share**

Diluted profit per share decreased from \$0.42 in 2012 to \$0.26 in the current year due largely to the negative impact of the U.S. drought. In addition, the Company reported a loss on foreign exchange of \$1.1 million in the first quarter of 2013 (2012 – gain of \$0.7 million) which was offset by a \$4.7 million gain on the sale of the Company's Saskatoon, Saskatchewan, manufacturing facility which had been made redundant through reallocation of production to other AGI facilities in fiscal 2012.

## **CORPORATE OVERVIEW**

AGI is 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 in the first quarter of 2013 was CAD \$1.01 (2012 - \$1.00).

Our business is also sensitive to fluctuations in input costs, especially steel, a principal raw material in our products, which represented approximately 26% of the Company's production costs in 2012. 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.

## **OUTLOOK**

U.S. farmers may plant 97.3 million acres of corn in 2013, the highest level since 1936, and harvest an all-time record crop of over 14 billion bushels, according to the USDA's March 2013 Prospective Plantings report and its 2013 Agricultural Outlook Forum. If achieved, the projected harvest would represent a 35% increase over 2012 in corn production, the primary demand driver for the Company's portable grain handling equipment. The USDA forecast, combined with greatly improved moisture levels in many key areas of the corn-belt and a late planting season, has resulted in an optimistic outlook for portable grain handling demand in the second half of 2013.

Demand for portable grain handling equipment in the second quarter of 2013, however, is expected to be muted due to the carryover impact of the U.S. drought. Although moisture conditions have improved significantly in recent weeks and the Company's backlog currently exceeds 2012 levels, scheduled deliveries for the second quarter of 2013 are lower than Q2 2012 deliveries and the Company does not expect in-season activity to stimulate significant demand until the third quarter. The anticipated decrease in sales of portable equipment in the second quarter of 2013 is not, however, expected to be as significant as the year-over-year change experienced in the first quarter of 2013.

The Company's commercial grain handling backlog has increased substantially in recent months and is significantly higher than the backlog at the same time in 2012. AGI's recovery from the 2012 U.S. drought in the commercial space has occurred more quickly than anticipated and management expects domestic and international demand will result in second quarter commercial equipment sales levels approximating the strong sales achieved in the second quarter of 2012. Based on improving sentiment and a growing order book management expects robust demand for commercial equipment to continue in the second half of 2013.

AGI enjoyed great success offshore in 2012 and that momentum has continued into 2013. Quoting activity remains at record highs and the Company's international back order is significantly higher than at the same time in 2012. The Company recently entered into a \$42 million agreement to supply \$28 million of grain handling, aeration and storage equipment and \$14 million in lower margin contracted products and services to a single customer in Ukraine, our largest ever single contract. In addition, our investment in two sales offices in South America in 2011 is expected to result in significant sales growth in Latin America in 2013.

On balance, although the U.S. drought of 2012 is anticipated to negatively impact the second quarter of 2013, the lingering effects of the drought are expected to dissipate later in the quarter with the arrival of the new crop season. Accordingly, based on current conditions, management expects adjusted EBITDA in the second quarter to fall below the strong levels achieved in 2012. The anticipated decrease is not expected to be as significant as the year-over-year decrease experienced in the first quarter of 2013.

Management's outlook for the second half of 2013 remains optimistic. Moisture levels in the United States corn-belt have improved significantly and if realized the current forecast for a 35% increase in corn production over 2012 should greatly benefit demand for grain handling equipment. The Company's international business continues to grow and we remain confident that the talent of our sales teams, our growing relationships offshore and the strength of our product offering will enable this growth to be sustained.

Consistent with prior years, demand in 2013, particularly in the second half, will be influenced by weather patterns, crop conditions, the timing of harvest and conditions during harvest. Yield per acre and the number of acres ultimately harvested may be impacted by dry conditions that persist in some regions of the U.S., particularly in the Great Plains, and the likelihood of regional flooding in western Canada. Changes in global macro-economic factors, including the availability of credit in new markets, also may influence demand, primarily for commercial grain handling and storage products. Results may also be impacted by changes in steel and other material input costs and the rate of exchange between the Canadian and U.S. dollars.

## DETAILED OPERATING RESULTS

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
Trade sales <sup>(1)</sup>	\$59,913	\$72,291
(Loss) gain on FX <sup>(2)</sup>	<u>(366)</u>	<u>64</u>
Sales	<u>59,547</u>	<u>72,355</u>
Cost of inventories	38,816	46,859
Depreciation & amortization	<u>1,392</u>	<u>1,435</u>
Cost of sales	<u>40,208</u>	<u>48,294</u>
General and administrative	13,877	13,344
Depreciation & amortization	1,063	1,040
Other operating income	(4,727)	(72)
Finance costs	3,316	3,249
Finance expense (income)	<u>734</u>	<u>(640)</u>
Profit before income taxes	5,076	7,140

Current income taxes	471	639
Deferred income taxes	<u>1,206</u>	<u>1,202</u>
Profit for the period	<u>\$3,399</u>	<u>\$5,299</u>
Net profit per share		
Basic	<u>\$0.27</u>	<u>\$0.42</u>
Diluted	<u>\$0.26</u>	<u>\$0.42</u>

(1) See “Non-IFRS Measures”.

(2) Primarily related to gain or losses on foreign exchange contracts.

### EBITDA RECONCILIATION

	Three Months Ended March 31	
(thousands of dollars)	2013	2012
Profit before income taxes	\$5,076	\$7,140
Finance costs	3,316	3,249
Depreciation and amortization in cost of sales	1,392	1,435
Depreciation and amortization in G&A expenses	<u>1,063</u>	<u>1,040</u>
<b>EBITDA <sup>(1)</sup></b>	<b>10,847</b>	<b>12,864</b>
Loss (gain) on foreign exchange in sales <sup>(2)</sup>	366	(64)
Loss (gain) on foreign exchange in finance income	735	(636)
Gain on sale of property, plant & equipment	<u>(4,702)</u>	<u>(2)</u>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b><u>\$7,246</u></b>	<b><u>\$12,162</u></b>

(1) See “Non-IFRS Measures”.

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

### ASSETS AND LIABILITIES

(thousands of dollars)	March 31 2013	December 31 2012	March 31 2012
Total assets	\$380,197	\$370,482	\$397,005
Total liabilities	\$193,089	\$180,786	\$197,438

## EXPLANATION OF OPERATING RESULTS

### Trade sales

(\$000s)	Three Months Ended March 31			
	2013	2012	Change	% Change
Canada	\$16,689	\$19,437	\$ (2,748)	(14%)
US	37,217	44,602	(7,385)	(17%)
Overseas	6,007	8,252	(2,245)	(27%)
<b>Total</b>	<b>\$59,913</b>	<b>\$72,291</b>	<b>\$(12,378)</b>	<b>(17%)</b>

### Canada

- Sales in Canada in the first quarter of 2012 were at record levels due to pent up demand after two consecutive years of lower than typical planted acreage. A similar dynamic was not present in 2013 and accordingly sales returned to more historical levels.
- Sales of portable grain handling and aeration equipment decreased in part due to a change in the buying pattern of a significant distributor that in prior years typically began building inventory levels in the first quarter.
- The Company anticipates Canadian sales in 2013 will approach the record sales achieved in 2012. Demand for portable and commercial handling equipment is expected to benefit from positive domestic agricultural fundamentals and what is currently anticipated to be a large crop. Domestic sales of storage bins, however, may decrease compared to the prior year as high commodity prices appear to have incentivised farmers to sell a higher than typical proportion of their 2012 harvest, resulting in higher than normal capacity within existing bins to store their 2013 harvest

### United States

- Sales of portable handling equipment decreased compared to the prior year as drought conditions in 2012 resulted in higher than typical inventory levels at the Company's dealer network and reduced grain handling requirements in the first quarter of 2013.
- Sales of commercial handling equipment in the U.S. decreased in the first quarter of 2013 due in part to the timing of customer delivery requests. The Company's commercial grain handling backlog has increased substantially in recent months and is now significantly higher than the backlog at the same time in 2012.
- U.S. sales of portable and commercial equipment are expected to be very strong in the second half of 2013. Order backlogs are well above 2012 levels due to positive agricultural fundamentals and growing optimism with respect to the 2013 crop.

### International

- Sales compared to the first quarter of 2012 decreased as shipments were impacted by the timing of customer commitments.
- International sales in fiscal 2013 are expected to increase significantly compared to the prior year. AGI's international order backlog is well above 2012 levels and includes a \$42 million agreement to supply \$28 million of grain handling, aeration and storage equipment and \$14 million in related services to a single customer in Ukraine.

## Gross Profit and Gross Margin

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
Trade sales	\$59,913	\$72,291
Cost of inventories <sup>(1)</sup>	<u>38,816</u>	<u>46,859</u>
Gross Margin	<u>\$21,097</u>	<u>\$25,432</u>
Gross Margin <sup>(1)</sup> (as a % of trade sales)	35.2%	35.2%

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

The Company's gross margin percentage for the three months ended March 31, 2013 was 35.2% (2012 – 35.2%). Gross margin percentages remained consistent with the prior year despite lower production volumes and a decrease in sales of high margin portable grain handling products. The Company was able to maintain margins on its portable equipment due to pricing discipline and proactively adjusting workforce levels in response to decreased demand. Gross margin on commercial equipment increased slightly compared to the first quarter of the prior year due primarily to operational initiatives implemented in 2012.

## General and Administrative Expenses

General & administrative expenses increased from \$13.3 million in 2012 to \$13.9 million in the current year. In January 2013 the Company granted a total of 260,000 share awards to eleven employees under its share award incentive plan which resulted in an increase in share based compensation expense of \$0.4 million. The remaining variance is the result of a number of offsetting factors with no individual variance larger than \$0.2 million.

## EBITDA and Adjusted EBITDA

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
EBITDA <sup>(1)</sup>	\$10,847	\$12,864
Adjusted EBITDA <sup>(1)</sup>	\$7,246	\$12,162

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

Adjusted EBITDA in 2013 decreased compared to 2012 due to the impact of the severe drought in the United States. EBITDA decreased less significantly as lower adjusted EBITDA and a loss on foreign exchange in the current year was partially offset by large gain on sale on the disposal of a redundant manufacturing facility in Saskatoon, SK.

## Finance Costs

The Company's bank indebtedness as at March 31, 2013 was \$1.0 million (December 31, 2012 – nil; March 31, 2012 - \$3.1 million) and its outstanding long-term debt and obligations under capital leases was \$35.7 million (December 31, 2012 - \$34.9 million; March 31, 2012 - \$35.1million). Long-term debt at March 31, 2013 is primarily comprised of U.S. \$25.0 million aggregate principal amount of non-amortizing secured notes that bear interest at 6.8% and mature October 29, 2016 and U.S. \$10.5 million of non-amortizing term debt, net of deferred financing costs of \$0.4 million. See "Capital Resources" for a description of the Company's credit facilities.

Finance costs for the three months ended March 31, 2013 were \$3.3 million (2012 - \$3.2 million). In addition to the instruments noted above, at March 31, 2013 the Company had outstanding \$114.9 million aggregate principal amount of convertible unsecured subordinated debentures (December 31, 2012 and March 31, 2012 - \$114.9 million). The Debentures bear interest at an annual rate of 7.0% and mature December 31, 2014. See "Capital Resources".

Finance costs also 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:

<b>Depreciation</b> (thousands of dollars)	<b>Three Months Ended March 31</b>	
	<b>2013</b>	<b>2012</b>
Depreciation in cost of sales	\$1,325	\$1,376
Depreciation in G&A	<u>135</u>	<u>143</u>
Total Depreciation	<u>\$1,460</u>	<u>\$1,519</u>

<b>Amortization</b> (thousands of dollars)	<b>Three Months Ended March 31</b>	
	<b>2013</b>	<b>2012</b>
Amortization in cost of sales	\$ 67	\$ 59
Amortization in G&A	<u>928</u>	<u>897</u>
Total Amortization	<u>\$995</u>	<u>\$956</u>

### Current income tax expense

For the three months ended March 31, 2013 the Company recorded current tax expense of \$0.5 million (2012 – \$0.6 million). Current tax expense relates primarily to AGI's U.S. subsidiaries.

### Deferred income tax expense

For the three months ended March 31, 2013, the Company recorded deferred tax expense of \$1.2 million (2012 – \$1.2 million). Deferred tax expense in 2013 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 reserves, convertible debentures, and deferred compensation plans.

Upon conversion to a corporation from an income trust in June 2009 (the "Conversion") the Company received certain tax attributes that may be used to offset tax otherwise payable in Canada. The Company's Canadian taxable income is based on the results of its divisions domiciled in Canada, including the corporate office, and realized gains on foreign exchange. For the quarter ending March 31, 2013, the Company offset \$0.5 million of Canadian tax otherwise payable (2012 - \$0.02 million) through the use of these attributes and since the date of Conversion a cumulative amount of \$23.6 million has been utilized. Utilization of these tax attributes is recognized in deferred income tax expense on the Company's income statement and the unused tax attributes of \$47.0 million are recorded as an asset on the Company's balance sheet. See "Risks and Uncertainties – Income Tax Matters".

Effective tax rate (thousands of dollars)	Three Months Ended March 31	
	2013	2012
Current tax expense	\$ 471	\$ 639
Deferred tax expense	<u>1,206</u>	<u>1,202</u>
Total tax	<u>\$ 1,677</u>	<u>\$1,841</u>
Profit before taxes	\$5,076	\$7,140
Total tax %	33%	26%

The Company's effective tax rate for the quarter ended March 31, 2013 was 33% (2012 – 26%). In the current period the Company recorded a non-cash foreign exchange loss of \$1.3 million (2012 - gain of \$1.2 million) that impacts profit before taxes but is not included in the calculation of current or deferred tax expense. In addition, the current period includes the non-taxable portion of the gain on sale of the Saskatoon property of \$2.3 million and a non-capital loss in Finland of \$0.8 million for which a deferred tax asset was not recorded.

## Profit and profit per share

For the three months ended March 31, 2013, the Company reported net profit of \$3.4 million (2012 - \$5.3 million), basic net profit per share of \$0.27 (2012 - \$0.42), and fully diluted net profit per share of \$0.26 (2012 - \$0.42). Decreases compared to the prior year were primarily the result of the impact of the U.S. drought on adjusted EBITDA.

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

2013					
	Average USD/CAD Exchange Rate	Sales	Profit (loss)	Basic Profit (loss) per Share	Diluted Profit (loss) per Share
Q1	\$1.01	\$59,547	\$3,399	\$0.27	\$0.26
<b>Fiscal 2013</b>	<b>\$1.01</b>	<b>\$59,547</b>	<b>\$3,399</b>	<b>\$0.27</b>	<b>\$0.26</b>

2012					
	Average USD/CAD Exchange Rate	Sales	Profit (loss)	Basic Profit (loss) per Share	Diluted Profit (loss) 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
Q4	\$1.00	60,017	(3,436)	(\$0.28)	(\$0.27)
<b>Fiscal 2012</b>	<b>\$1.00</b>	<b>\$314,342</b>	<b>\$17,188</b>	<b>\$1.38</b>	<b>\$1.37</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>

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 AGI's working capital movements, cash provided by operations will typically be highest in the fourth quarter. The seasonality of AGI'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 impacted by the rate of exchange between the Canadian and U.S. dollars.
- Sales, net profit and profit per share are impacted by the acquisition of Airlanco in October 2011.
- A widespread drought in the U.S. impacted sales and profit in the third and fourth quarters of 2012 and the first quarter of 2013.

## CASH FLOW AND LIQUIDITY

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
Profit before income taxes	\$5,076	\$7,140
Add charges (deduct credits) to operations not requiring a current cash payment:		
Depreciation and amortization	2,455	2,475
Translation (gain) loss on FX	2,344	(1,292)
Non-cash interest expense	672	600
Share based compensation	714	293
Gain on sale of assets	(4,702)	(2)
	<u>6,559</u>	<u>9,214</u>
Net change in non-cash working capital balances related to operations:		
Accounts receivable	(611)	(10,015)
Inventory	(7,581)	(5,277)
Prepaid expenses and other	(422)	480
Accounts payable and accruals	4,812	3,840
Customer deposits	4,089	3,069
Provisions	<u>0</u>	<u>(10)</u>
	<u>287</u>	<u>(7,913)</u>
Settlement of SAIP obligation	0	(1,495)
Income tax paid	(537)	(488)
Cash provided by (used in) operations	<u>\$6,309</u>	<u>\$(682)</u>

For the three months ended March 31, 2013, cash provided by operations was \$6.3 million (2012 – used \$0.7 million). Cash used in operations in the first quarter reflects the seasonality of AGI’s business. The increase in cash generated compared to 2012 is largely the result of a smaller investment in working capital compared to the prior year.

### **Working Capital Requirements**

Interim period working capital requirements typically reflect the seasonality of the business. AGI’s collections of accounts receivable are weighted towards the third and fourth quarters. This collection pattern, combined with historically high sales in the 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, AGI 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. AGI has typically fully repaid its operating line balance by early in the fourth quarter.

Results for the three months ended March 31, 2013 were negatively impacted by a severe drought in the United States in 2012 that significantly lowered crop production volumes. As a result, sales and the drawdown of the company’s inventory were negatively impacted in the first quarter of 2013 and the Company anticipates this trend will continue in the second quarter of 2013. Growth in international business and increasing storage bin sales may result in an increase in the number of days accounts receivable remain outstanding and higher than historical inventory levels.

### **Capital Expenditures**

Maintenance capital expenditures in the three months ended March 31, 2013 were \$0.4 million or 0.6% of trade sales (2012 - \$1.0 million and 1.5%). Maintenance capital expenditures in 2013 relate primarily to purchases of manufacturing equipment and building repairs and were funded through cash on hand, cash from operations and bank indebtedness.

AGI defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures encompass other investments, including cash outlays required to increase operating capacity or improve operating efficiency. AGI had non-maintenance capital expenditures of \$0.1 million in the quarter ended March 31, 2013 (2012 - nil). Non-maintenance capital expenditures in 2012 relate primarily to investments in equipment to support growth at the Company’s commercial divisions. Maintenance capital expenditures in 2013 are expected to approximate 2012 levels and non-maintenance capital expenditures are expected to increase due to an investment of approximately \$8.7 million in facility and equipment to support growth in the portable conveyor market. The facility and equipment investment of \$8.7 million is expected to be financed primarily through the sale of redundant facilities in Swift Current, SK and Saskatoon, SK, while the remaining capital expenditures are expected to be financed through a combination of cash on hand, bank indebtedness and term debt.

## Cash Balance

The Company's cash position decreased \$3.2 million in the quarter ended March 31, 2013 (2012 – decrease of \$9.9 million). Due to its seasonality the Company typically draws on its operating line in the first quarter of a fiscal year. The decrease in 2013 was less than the decline in 2012 as less cash was required to finance working capital.

## CONTRACTUAL OBLIGATIONS (thousands of dollars)

	Total	2013	2014	2015	2016	2017+
Debentures	114,885	0	114,885	0	0	0
Long-term debt	36,097	2	10,705	0	25,390	0
Operating leases	<u>4,552</u>	<u>1,010</u>	<u>1,017</u>	<u>722</u>	<u>504</u>	<u>1,299</u>
Total obligations	<u>\$155,534</u>	<u>\$1,012</u>	<u>\$126,607</u>	<u>\$722</u>	<u>\$25,894</u>	<u>\$1,299</u>

Debentures relate to the aggregate principal amount of convertible debentures issued by the Company in October 2009 (see “Convertible Debentures” below). Long-term debt at March 31, 2013 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 March 31, 2013, the Company had outstanding commitments of \$6.2 million which were primarily related to the purchase of property, plant and equipment of a facility and upgraded equipment to support growth in the portable belt conveyor market.

## CAPITAL RESOURCES

### Cash

Cash and cash equivalents at March 31, 2013 were nil (December 31, 2013 - \$2.2 million; March 31, 2012 – nil). Due to its seasonality the Company typically draws on its operating line in the first quarter of a fiscal year.

### 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 6.8% and mature October 29, 2016. Under the note purchase agreement, AGI 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 \$1.0156) as at March 31, 2013:

	<b>As at March 31, 2013</b>
Committed Line	\$70,581
Bank indebtedness	995
Long-term debt	<u>10,694</u>
Undrawn at March 31, 2013	<u>\$58,892</u>

The renewed credit includes lender approval to expand the facility by an additional \$25 million, bears interest at rates of prime 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. AGI is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio, and is in compliance with all financial covenants.

### **Convertible Debentures**

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 AGI for general corporate purposes, to repay indebtedness, to fund acquisitions and to finance the expansion of the Company's storage bin product line.

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:

	# Common Shares
December 31, 2012 and March 31, 2013	12,548,103
Shares issued under Dividend Reinvestment Plan	<u>2,533</u>
May 10, 2013	<u>12,550,636</u>

The administrator of the Company’s long term incentive plan (“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 or fiscal 2012. The common shares purchased are held by the administrator until such time as they vest to the LTIP participants. As at March 31, 2013, a total of 300,307 common shares related to the LTIP had vested to the participants. No further awards are available under the LTIP subsequent to 2012.

On May 11, 2012 the shareholders of AGI authorized a new Share Award Incentive Plan (the “2012 SAIP”) which authorizes the Board to grant restricted Share Awards (“RSU’s”) and performance Share Awards (“PSU’s”) 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 March 31, 2013, a total of 150,000 RSU’s and 110,000 PSU’s have been granted.

A total of 32,882 deferred grants of common shares are outstanding under the Company’s Director’s Deferred Compensation Plan.

On March 5, 2013, the Company announced the adoption of a dividend reinvestment plan (the “DRIP”). Eligible shareholders who elect to reinvest dividends under the DRIP receive common shares issued from treasury at a discount of 4% from the market price of the common shares, with the market price being equal to the volume-weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days preceding the applicable dividend payment date.

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

## DIVIDENDS

In the quarter ended March 31, 2013, AGI declared dividends to shareholders of \$7.7 million (2012 - \$7.5 million). AGI's policy is to pay monthly dividends. The Company's Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be in the best interest of the Company. Financial results in the second half of 2012 and the first quarter of 2013 were negatively impacted by a severe drought experienced in the U.S. and this impact is expected to continue into the second quarter of 2013 (see "Summary of Results"). The Company's dividend 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 quarter ended March 31, 2013 were funded through cash on hand, cash from operations and bank indebtedness. The Company expects dividends in 2013 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 March 31	
	2013	2012
EBITDA	\$10,847	\$12,864
Share based compensation	714	293
Non-cash interest expense	672	600
Translation (gain) loss on FX	2,344	(1,292)
Interest expense	(3,316)	(3,249)
Income taxes paid	(537)	(488)
Maintenance capital expenditures	(443)	(1,049)
Funds from operations (1)	<u>\$10,281</u>	<u>\$7,679</u>

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

(thousands of dollars)	Three Months Ended March 31	
	2013	2012
Cash provided by (used in) operating activities	\$6,309	\$ (682)
Change in non-cash working capital	(287)	7,913
Settlement of SAIP option	0	1,495
Maintenance capital expenditures	(443)	(1,049)
Gain on sale of assets	<u>4,702</u>	<u>2</u>
Funds from operations (1)	<u>\$10,281</u>	<u>\$7,679</u>
Shares outstanding (2)	12,838,429	12,569,162
Funds from operations per share	\$0.80	\$0.61
Dividends declared per share	\$0.60	\$0.60
Payout ratio (1)	75%	98%

(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.

The Company’s payout ratio was lower than the same period in 2012 largely because of a gain on the sale of AGI’s redundant Saskatoon, SK manufacturing facility. Excluding this gain, funds from operations and the Company’s payout ratio in the first quarter of 2013 was higher than is typical in this period due to the significant impact of the U.S. drought. Management anticipates the impact of the drought will negatively impact the Company’s payout ratio in the second quarter of 2013, however not to the degree experienced in the first quarter of 2013. The payout ratio in the second half of 2013 is anticipated to benefit from higher year-over-year adjusted EBITDA (see “Outlook”).

## FINANCIAL INSTRUMENTS

### Foreign exchange contracts

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollars and to a lesser extent to variations in exchange rates between the Euro and the Canadian dollar. AGI has entered into foreign exchange contracts with three Canadian chartered banks to partially hedge its foreign currency exposure as at March 31, 2013, 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>
2013	\$44,000	\$1.0273	\$45,201
2014	\$61,000	\$1.0186	\$62,132
2015	\$5,000	\$1.0417	\$5,209

<b>Forward Foreign Exchange Contracts</b>			
<b>Settlement Dates</b>	<b>Face Amount Euros (000's)</b>	<b>Average Rate CAD</b>	<b>CAD Amount (000's)</b>
2013	500	1.3250	663
2014	500	1.3290	665

The fair value of the outstanding forward foreign exchange contracts in place as at March 31, 2013 was a loss of \$0.3 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 period ended March 31, 2013.

Subsequent to March 31, 2013, the Company entered into foreign exchange forward contracts for settlements in 2014 totalling U.S. \$4.0 million at an average rate of \$1.0234 and for 2015 settlements totalling U.S. \$3.0 million at an average rate of \$1.0351.

## **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.

AGI 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. AGI's accounting policies are described in the notes to its December 31, 2012 audited financial statements.

### **Allowance for Doubtful Accounts**

Due to the nature of AGI'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. AGI 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. AGI 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. AGI 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. AGI 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 AGI's estimate of deferred tax assets and liabilities. . See "Risks and Uncertainties – Income Tax Matters".

### **Future Benefit of Tax-loss Carryforwards**

AGI 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 AGI. 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 AGI.

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 AGI. 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 AGI's manufacturing process, some or all of which may be subject to wide price variation. Consistent with past and current practices within the industry, AGI 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 AGI to continue to reduce its exposure to volatility of production costs by passing through price increases to its customers.

### ***Foreign Exchange Risk***

AGI generates the majority of its sales in U.S. dollars but a materially smaller proportion of its expenses are denominated in U.S. dollars. AGI also generates a portion of its sales in Euros but a materially smaller proportion of its expenses are denominated in Euros. In addition, AGI 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 and between the Canadian dollar and the Euro 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 AGI does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the U.S. dollar and between the Canadian dollar and the Euro may have a material adverse effect on AGI's results of operations, business, prospects and financial condition.

### ***Acquisition and Expansion Risk***

AGI 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 AGI'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 AGI's results of operations and financial condition.

### ***International Sales and Operations***

A portion of AGI's sales are generated in overseas markets and AGI 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. Further, the Company's business practices in these foreign countries must comply with the Corruption of Public Foreign Officials Act (Canada) and other applicable similar laws. If violations of these laws were to occur, they could subject us to fines and other penalties as well as increased compliance costs. There is no guarantee that one or more of these factors will not materially adversely affect AGI'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 AGI, 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 AGI. 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***

AGI experiences competition in the markets in which it operates. Certain of AGI's competitors have greater financial and capital resources than AGI. AGI 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 AGI'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. AGI may also face potential competition from the emergence of new products or technology.

### ***Seasonality of Business***

The seasonality of the demand for AGI'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 AGI's credit facility will be sufficient to offset the seasonal variations in AGI's cash flow.

### ***Business Interruption***

The operation of AGI'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. AGI 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, AGI'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. AGI is not able to predict the occurrence of business interruptions.

### ***Litigation***

In the ordinary course of its business, AGI 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***

AGI's future business, financial condition, and operating results depend on the continued contributions of certain of AGI'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 AGI'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 AGI 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 AGI will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse affect on AGI's results of operations.

### ***Distribution, Sales Representative and Supply Contracts***

AGI 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 AGI at any time. In addition, even if such parties should decide to continue their relationship with AGI, there can be no guarantee that the consideration or other terms of such contracts will continue on the same basis.

### ***Availability of Credit***

AGI'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***

AGI'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***

AGI 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 AGI and the level thereof is uncertain, as AGI'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 AGI and its subsidiaries, financial requirements for AGI'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 AGI's control.

### ***Income Tax Matters; Communication with Canada Revenue Agency Regarding Conversion***

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of federal and provincial income tax rules and regulations, and judgments as to their interpretation and application to AGI's specific situation. The amount and timing of reversals of temporary differences will also depend on AGI's future operating results, acquisitions and dispositions of assets and liabilities. The business and operations of AGI are complex and AGI has executed a number of significant financings, acquisitions, reorganizations and business combinations over the course of its history including the Conversion. The computation of income taxes payable as a result of these transactions involves many complex factors as well as AGI's interpretation of and compliance with relevant tax legislation and regulations. While AGI believes that its 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. Without limitation, there is a risk that the tax consequences of the Conversion may be materially different from the tax consequences anticipated by the Company in undertaking the Conversion. While the Company is confident in its tax filing position, there is a risk that the Canada Revenue Agency (the "CRA") could successfully challenge the tax consequences of the Conversion or prior transactions of any of the entities involved in the Conversion. Therefore, it is possible that additional taxes could be payable by AGI and the ultimate value of AGI's income tax assets and liabilities could change in the future and that changes to these amounts could have a material adverse effect on AGI's consolidated financial statements and financial position. Further, in the event of a reassessment of any of AGI's tax filings by a taxation authority including the CRA, AGI would be required to deposit cash equal to 50% of the tax liability claimed with the relevant taxation authority in order to file an objection against such reassessment, the amount of which deposit could be significant. See also "Explanation of Operating Results – Deferred income tax expense".

***AGI 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 AGI 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 AGI'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 AGI to the risk of increased interest rates; and (iv) AGI may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. AGI'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 AGI 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. AGI'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 AGI 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 AGI 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 AGI 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**

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 2012 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 AGI's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

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

There have been no material changes in AGI's internal controls over financial reporting that occurred in the three month period ended March 31, 2013, 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, depreciation, and goodwill and intangible impairment. 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, our business and strategy, including our outlook for our financial and operating performance, anticipated crop plantings and crop production in our market areas, 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, weather patterns, 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 AGI, including AGI’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.**

March 31, 2013

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	As at March 31, 2013 \$	As at December 31, 2012 \$
<b>ASSETS</b> <i>[note 13]</i>		
<b>Current assets</b>		
Cash and cash equivalents	—	2,171
Restricted cash <i>[note 12[a]]</i>	52	34
Accounts receivable <i>[note 9]</i>	52,467	51,856
Inventory	66,094	58,513
Prepaid expenses and other assets	2,067	1,645
Proceeds receivable from disposition of asset <i>[note 10]</i>	5,853	—
Income taxes recoverable	859	900
Current portion of derivative instruments <i>[note 16]</i>	405	1,377
	<b>127,797</b>	<b>116,496</b>
<b>Non-current assets</b>		
Property, plant and equipment, net	79,172	80,854
Deposit on purchase of property, plant and equipment <i>[notes 21[a]]</i>	741	—
Goodwill <i>[note 7]</i>	63,886	63,399
Intangible assets, net <i>[note 6]</i>	72,617	72,777
Available-for-sale investment	2,000	2,000
Derivative instruments	—	234
Deferred tax asset <i>[note 15]</i>	32,883	33,621
	<b>251,299</b>	<b>252,885</b>
Assets held for sale	1,101	1,101
<b>Total assets</b>	<b>380,197</b>	<b>370,482</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness <i>[notes 4 and 13[a]]</i>	995	—
Accounts payable and accrued liabilities	22,163	17,351
Customer deposits	9,072	4,983
Dividends payable <i>[note 11[d]]</i>	2,666	2,510
Current portion of long-term debt <i>[note 13]</i>	5	7
Provisions	2,420	2,420
	<b>37,321</b>	<b>27,271</b>
<b>Non-current liabilities</b>		
Long-term debt <i>[note 13]</i>	35,707	34,916
Convertible unsecured subordinated debentures <i>[note 14]</i>	110,177	109,558
Derivative instruments <i>[note 16]</i>	690	—
Deferred tax liability <i>[note 15]</i>	9,194	9,041
	<b>155,768</b>	<b>153,515</b>
<b>Total liabilities</b>	<b>193,089</b>	<b>180,786</b>
<b>Shareholders' equity</b> <i>[note 11]</i>		
Common shares	155,701	153,447
Accumulated other comprehensive loss	(1,592)	(2,590)
Equity component of convertible debentures	5,105	5,105
Contributed surplus	2,554	4,108
Retained earnings	25,340	29,626
<b>Total shareholders' equity</b>	<b>187,108</b>	<b>189,696</b>
<b>Total liabilities and shareholders' equity</b>	<b>380,197</b>	<b>370,482</b>
Commitments and contingencies <i>[note 21]</i>		

*See accompanying notes*

On behalf of the Board of Directors:

(signed) Bill Lambert

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

**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>March 31, 2013</b>	<b>March 31, 2012</b>
	\$	\$
<b>Sales</b>	<b>59,547</b>	72,355
Cost of goods sold <i>[note 5[d]]</i>	<b>40,208</b>	48,294
<b>Gross profit</b>	<b>19,339</b>	24,061
<b>Expenses</b>		
Selling, general and administrative <i>[note 5[e]]</i>	<b>14,940</b>	14,384
Other operating income <i>[note 5[a]]</i>	<b>(4,727)</b>	(72)
Finance costs <i>[note 5[c]]</i>	<b>3,316</b>	3,249
Finance expense (income) <i>[note 5[b]]</i>	<b>734</b>	(640)
	<b>14,263</b>	16,921
Profit before income taxes	<b>5,076</b>	7,140
Income tax expense <i>[note 15]</i>		
Current	<b>471</b>	639
Deferred	<b>1,206</b>	1,202
	<b>1,677</b>	1,841
<b>Profit for the period</b>	<b>3,399</b>	5,299
<b>Profit per share - basic</b> <i>[note 19]</i>	<b>0.27</b>	0.42
<b>Profit per share - diluted</b> <i>[note 19]</i>	<b>0.26</b>	0.42

*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>March 31, 2013</b>	<b>March 31, 2012</b>
	\$	\$
Profit for the period	<b>3,399</b>	5,299
Other comprehensive income		
Items that may be reclassified subsequently to profit or (loss)		
Exchange difference on translating foreign operations	<b>2,393</b>	(1,758)
Change in fair value of derivatives designated as cash flow hedges	<b>(1,656)</b>	1,044
Loss (gains) on derivatives designated as cash flow hedges recognized in net earnings in the current period	<b>(244)</b>	236
Income tax relating to items that may be reclassified	<b>505</b>	(234)
<b>Other comprehensive income (loss) for the period</b>	<b>998</b>	(712)
<b>Total comprehensive income for the period</b>	<b>4,397</b>	4,587

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Three-month period ended March 31, 2013

	<b>Common shares</b>	<b>Equity component of convertible debentures</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Cash flow hedge reserve</b>	<b>Foreign currency reserve</b>	<b>Available-for- sale reserve</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2013</b>	<b>153,447</b>	<b>5,105</b>	<b>4,108</b>	<b>29,626</b>	<b>1,179</b>	<b>(3,769)</b>	<b>—</b>	<b>189,696</b>
Profit for the period	—	—	—	3,399	—	—	—	3,399
Other comprehensive income (loss)	—	—	—	—	(1,395)	2,393	—	998
Share-based payment transactions <i>[note 12]</i>	2,286	—	(1,554)	—	—	—	—	732
Dividend reinvestment plan transactions <i>[note 11[e]]</i>	(32)	—	—	—	—	—	—	(32)
Dividends to shareholders <i>[note 11[d]]</i>	—	—	—	(7,685)	—	—	—	(7,685)
<b>As at March 31, 2013</b>	<b>155,701</b>	<b>5,105</b>	<b>2,554</b>	<b>25,340</b>	<b>(216)</b>	<b>(1,376)</b>	<b>—</b>	<b>187,108</b>

See accompanying notes

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Three-month period ended March 31, 2012

	<b>Common shares</b>	<b>Equity component of convertible debentures</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Cash flow hedge reserve</b>	<b>Foreign currency reserve</b>	<b>Available-for- sale reserve</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<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	—	—	—	5,299	—	—	—	5,299
Other comprehensive income (loss)	—	—	—	—	940	(1,758)	106	(712)
Share-based payment transactions	2,355	—	(2,007)	—	—	—	—	348
Dividends to shareholders	—	—	—	(7,527)	—	—	—	(7,527)
<b>As at March 31, 2012</b>	<b>153,394</b>	<b>5,105</b>	<b>3,334</b>	<b>40,321</b>	<b>(400)</b>	<b>(2,881)</b>	<b>694</b>	<b>199,567</b>

*See accompanying notes*

**Ag Growth International Inc.**

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

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

	<b>Three-month period ended</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Profit before income taxes for the period	5,076	7,140
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	1,460	1,519
Amortization of intangible assets	995	956
Translation loss (gain) on foreign exchange	2,344	(1,292)
Non-cash component of interest expense	672	600
Share-based compensation	714	293
Gain on sale of property, plant and equipment	(4,702)	(2)
Net change in non-cash working capital balances related to operations <i>[note 8]</i>	287	(7,913)
Settlement of SAIP obligation	—	(1,495)
Income tax paid	(537)	(488)
<b>Cash provided by (used in) operating activities</b>	<b>6,309</b>	<b>(682)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(587)	(1,049)
Deposits related to property, plant and equipment	(741)	—
Transfer from (to) cash held in trust and restricted cash	(18)	1,492
Proceeds from sale of property, plant and equipment, net	10	34
Development of intangible assets	(421)	(428)
Transaction and financing costs paid	—	(1,438)
<b>Cash used in investing activities</b>	<b>(1,757)</b>	<b>(1,389)</b>
<b>FINANCING ACTIVITIES</b>		
Increase of bank indebtedness	995	3,058
Repayment of long-term debt	(1)	(2)
Repayment of obligations under finance leases	—	(22)
Finance costs incurred	—	(275)
Dividends paid	(7,685)	(7,527)
Dividend reinvestment plan costs incurred	(32)	—
<b>Cash used in financing activities</b>	<b>(6,723)</b>	<b>(4,768)</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(2,171)</b>	<b>(6,839)</b>
Cash and cash equivalents, beginning of period	2,171	6,839
<b>Cash and cash equivalents, end of period</b>	<b>—</b>	<b>—</b>
<b>Supplemental cash flow information</b>		
Interest paid	612	617

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]

March 31, 2013

## **1. ORGANIZATION**

The unaudited interim condensed consolidated financial statements of Ag Growth International Inc. ["Ag Growth Inc."] for the three-month period ended March 31, 2013 were authorized for issuance in accordance with a resolution of the directors on May 9, 2013. 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 unaudited interim condensed 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.

The Company adopted IFRS 10, 11, 12, 13, IAS 1 and IAS 19 on January 1, 2013. There was no material impact to the Company's unaudited interim condensed consolidated financial statements as a result of the adoption of these standards. There were no changes to the Company's operating segments during the three-month period ended March 31, 2013.

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, 2012, 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]

March 31, 2013

**[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 unaudited interim condensed consolidated financial position of the Company as at March 31, 2013.

**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.

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**5. OTHER EXPENSES (INCOME)**

	<b>Three-month period ended</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>
	\$	\$
<b>[a] Other operating income</b>		
Net gain on disposal of property, plant and equipment	(4,702)	(2)
Other	(25)	(70)
	<u>(4,727)</u>	<u>(72)</u>
<b>[b] Finance (income) expense</b>		
Interest income from banks	(1)	(4)
Loss (gain) on foreign exchange	735	(636)
	<u>734</u>	<u>(640)</u>
<b>[c] Finance costs</b>		
Interest on overdrafts and other finance costs	16	46
Interest, including non-cash interest, on debts and borrowings	671	618
Interest, including non-cash interest, on convertible debentures <i>[note 14]</i>	2,629	2,583
Finance charges payable under finance lease contracts	—	2
	<u>3,316</u>	<u>3,249</u>
<b>[d] Cost of goods sold</b>		
Depreciation	1,325	1,376
Amortization of intangible assets	67	59
Warranty provision	—	(10)
Cost of inventories recognized as an expense	38,816	46,869
	<u>40,208</u>	<u>48,294</u>
<b>[e] Selling, general and administrative expenses</b>		
Depreciation	135	143
Amortization of intangible assets	928	897
Minimum lease payments recognized as an operating lease expense	286	246
Selling, general and administrative	13,591	13,098
	<u>14,940</u>	<u>14,384</u>
<b>[f] Employee benefits expense</b>		
Wages and salaries	18,373	18,997
Share-based payment transaction expense <i>[note 12]</i>	714	293
Pension costs	562	535
	<u>19,649</u>	<u>19,825</u>
Included in cost of goods sold	12,231	12,929
Included in selling general and administrative expense	7,418	6,896
	<u>19,649</u>	<u>19,825</u>

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**6. INTANGIBLE ASSETS**

	<u>\$</u>
<b>Balance, January 1, 2012</b>	75,510
Internal development	1,616
Amortization	(3,849)
Exchange differences	(500)
<b>Balance, December 31, 2012</b>	<u>72,777</u>
Internal development	421
Amortization	(995)
Exchange differences	414
<b>Balance, March 31, 2013</b>	<u><u>72,617</u></u>

**7. GOODWILL**

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<u>\$</u>	<u>\$</u>
<b>COST</b>		
<b>Balance, beginning of period</b>	<b>63,399</b>	65,876
Exchange differences	<b>487</b>	(587)
Impairment of goodwill	<b>—</b>	(1,890)
<b>Balance, end of period</b>	<u><b>63,886</b></u>	<u>63,399</u>

**8. CHANGES IN NON-CASH WORKING CAPITAL**

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

	<b>March 31, 2013</b>	<b>March 31, 2012</b>
	<u>\$</u>	<u>\$</u>
Accounts receivable	<b>(611)</b>	(10,015)
Inventory	<b>(7,581)</b>	(5,277)
Prepaid expenses and other assets	<b>(422)</b>	480
Accounts payable and accrued liabilities	<b>4,812</b>	3,840
Customer deposits	<b>4,089</b>	3,069
Provisions	<b>—</b>	(10)
	<u><b>287</b></u>	<u>(7,913)</u>

## Ag Growth International Inc.

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#### 9. 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:

	March 31, 2013 \$	December 31, 2012 \$
Total accounts receivable	53,063	52,449
Less allowance for doubtful accounts	(596)	(593)
<b>Total accounts receivable, net</b>	<b>52,467</b>	<b>51,856</b>
<b>Of which</b>		
Neither impaired nor past due	32,321	33,672
Not impaired and past the due date as follows		
Within 30 days	13,308	9,709
31 to 60 days	2,218	4,095
61 to 90 days	912	1,932
Over 90 days	4,304	3,041
Less allowance for doubtful accounts	(596)	(593)
<b>Total accounts receivable, net</b>	<b>52,467</b>	<b>51,856</b>

#### 10. PROCEEDS RECEIVABLE FROM DISPOSITION OF ASSET

During the three-month period ended March 31, 2013, the Company disposed of land and building. As at March 31, 2013, \$5,853 is held in trust. Subsequent to March 31, 2013, the Company has received the proceeds.

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**11. EQUITY**

**[a] Common shares**

**Authorized**

Unlimited number of voting common shares without par value

**Issued**

12,531,106 common shares

	<b>Number #</b>	<b>Amount \$</b>
<b>Balance, January 1, 2012</b>	12,411,620	151,039
Exercise of grants under DDCP	2,107	53
Settlement of LTIP - vested shares	60,028	2,355
<b>Balance, December 31, 2012</b>	12,473,755	153,447
Dividend reinvestment plan transactions <i>[note 11[e]]</i>	—	(32)
Settlement of LTIP obligation - vested shares <i>[note 12[e]]</i>	57,351	2,286
<b>Balance, March 31, 2013</b>	<b>12,531,106</b>	<b>155,701</b>

The 12,531,106 common shares as at March 31, 2013 are net of 16,997 common shares with a stated value of \$786 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

The 12,471,648 common shares as at March 31, 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.

**[b] Contributed surplus**

	<b>Three-month period ended March 31, 2013 \$</b>	<b>Year ended December 31, 2012 \$</b>
<b>Balance, beginning of period</b>	<b>4,108</b>	5,341
Equity-settled director compensation	<b>84</b>	324
Obligation under LTIP	<b>52</b>	850
Obligation under 2012 SAIP	<b>577</b>	—
Exercise of grants under DDCP	—	(53)
Settlement of LTIP obligation - vested shares	<b>(2,267)</b>	(2,354)
<b>Balance, end of period</b>	<b>2,554</b>	4,108

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**[c] Accumulated other comprehensive loss**

Accumulated other comprehensive loss is comprised of the following:

**Cash flow hedge reserve**

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

**Foreign currency translation reserve**

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

**Available-for-sale reserve**

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

**[d] Dividends paid and proposed**

In the three-month period ended March 31, 2013, the Company declared dividends of \$7,685 or \$0.60 per common share [2012 - \$7,527 or \$0.60 per common share]. Ag Growth's dividend policy is to pay cash dividends on or about the 15th 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 March 31, 2013, the Company declared dividends of \$0.20 per common share on April 30, 2013.

**[e] Dividend reinvestment plan**

On March 5, 2013, the Company announced the adoption of a dividend reinvestment plan [the "DRIP"]. Eligible shareholders who elect to reinvest dividends under the DRIP will initially receive common shares issued from treasury at a discount of 4% from the market price of the common shares, with the market price being equal to the volume-weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days preceding the applicable dividend payment date. The Company incurred costs of \$32 with respect to implementation of the DRIP. For the period ended March 31, 2013, shareholders elected to receive common shares in lieu of cash of \$80 and subsequent to March 31, 2013, 2,533 common shares were issued to shareholders from treasury under the DRIP.

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## **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 on January 1 of the year the award is generated and ends at the end of the fiscal year. The award vests on a graded scale over an additional three-year period from the end of the respective performance year. The LTIP provides for immediate vesting in the event of retirement, death, termination without cause or in the event the participant becomes disabled. The cash awarded under the plan formula is used to purchase Ag Growth common shares at market prices. All vested awards are settled with participants in common shares purchased by the administrator of the plan and there is no cash settlement alternative.

The amount owing to participants is recorded as an equity award in contributed surplus as the award is settled with participants with treasury shares purchased in the open market. The expense is recorded in the different unaudited interim condensed consolidated statement of income lines by function depending on the role of the respective management member. During the three-month period ended March 31, 2013, Ag Growth expensed \$52 [2012 - \$213] for the LTIP. Additionally, there is \$52 [2012 - \$34] in restricted cash related to the LTIP. Further awards under the LTIP ceased, effective for the fiscal 2012 year.

### **[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"] [collectively the "Share 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 2012 SAIP provides for accelerated vesting in the event of a change in control, retirement, death or termination without cause.



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Each Restricted Award entitles the holder to be issued the number of 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, subject to earlier vesting in certain events.

The Company has the obligation to settle any amount payable in respect of a Restricted Award by common shares issued from treasury of the Company.

Each Performance Award entitles the holder to be issued the number of common shares designated in the Performance Award multiplied by a Payout Multiplier with such common shares to be issued after the third and prior to the fourth anniversary date of the grant. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined measures in respect of the applicable period. The Payout Multiplier may not exceed 200%.

The Company has the sole discretion to settle any amount payable in respect of the Performance Award by common shares issued from treasury of the Company or with cash equal to the fair value of such common shares. It is the intention of the Company to settle the share award by common shares.

As at March 31, 2013, 150,000 Restricted Awards and 110,000 Performance Awards have been granted. The Company has accounted for the Share Awards as an equity-settled plan. The fair values of the Restricted Awards and the Performance Awards were based on the share price as at the grant date and the assumption that there will be no forfeitures. In addition, the expense of the Performance Awards is based on the probability of achieving 100% of the Payout Multiplier. During the three-month period ended March 31, 2013, Ag Growth expensed \$578 for the 2012 SAIP [2012 - nil].

**[c] Directors' deferred compensation plan ["DDCP"]**

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

For the periods ended March 31, 2013 and 2012, the Directors elected to receive the majority of their remuneration in common shares. For the three-month period ended March 31, 2013, an expense of \$84 [2012 - \$80] was recorded for the share grants, and a corresponding amount has

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been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 70,000, subject to adjustment in lieu of dividends, if applicable. For the three-month period ended March 31, 2013, 2,585 common shares were granted under the DDCP and as at March 31, 2013, a total of 34,989 common shares had been granted under the DDCP and 2,107 common shares had been issued.

**[d] Stock option plan**

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

On May 11, 2012, the shareholders of Ag Growth approved an amended management compensation structure which included the termination of the Option Plan. As at the date of termination, no options had been granted under the Option Plan.

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

For the three-month period ended March 31, 2013, an expense of \$714 [2012 - \$293] was recognized for employee and Director services rendered.

A summary of the status of the options under the 2007 and 2012 SAIP is presented below:

	2007 SAIP #	2012 SAIP	
		Restricted awards #	Performance awards #
<b>Outstanding, January 1, 2012</b>	40,000	—	—
Exercised	(40,000)	—	—
<b>Balance, December 31, 2012</b>	—	—	—
Granted	—	150,000	110,000
<b>Balance, March 31, 2013</b>	—	<b>150,000</b>	<b>110,000</b>

The exercise price on all 2007 SAIP awards is \$0.10 per common share. There is no exercise price on the 2012 SAIP awards.

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

	<b>Three-month period ended March 31, 2013</b>	<b>Year ended December 31, 2012</b>
	<b>Shares #</b>	<b>Shares #</b>
<b>Outstanding, beginning of period</b>	<b>74,348</b>	134,376
Vested	<b>(57,351)</b>	(60,028)
<b>Outstanding, end of period</b>	<b>16,997</b>	74,348

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

	<b>Interest rate %</b>	<b>Maturity</b>	<b>March 31, 2013 \$</b>	<b>December 31, 2012 \$</b>
<b>Current portion of interest-bearing loans and borrowings</b>				
GMAC loans	0.0	2014	<u>5</u>	<u>7</u>
<b>Total current portion of interest-bearing loans and borrowings</b>			<u>5</u>	<u>7</u>
<b>Non-current interest-bearing loans and borrowings</b>				
Series A secured notes [U.S. dollar denominated]	6.8	2016	<b>25,390</b>	24,872
Term debt [U.S. dollar denominated]	3.8	2014	<b>10,694</b>	10,475
GMAC loans	0.0	2014	<u>8</u>	<u>7</u>
<b>Total non-current interest-bearing loans and borrowings</b>			<u>36,092</u>	35,354
			<b>36,097</b>	35,361
Less deferred financing costs			<u>385</u>	438
<b>Total interest-bearing loans and borrowings</b>			<u>35,712</u>	34,923

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**[a] Bank indebtedness**

Ag Growth has operating facilities of \$10 million and U.S. \$2.0 million. The facilities bear interest at prime to prime plus 1.0% per annum based on performance calculations. The effective interest rate during the three-month period ended March 31, 2013 on Ag Growth's Canadian dollar operating facility was 3.0% [2012 - 3.4%], and on its U.S. dollar operating facility was 3.25% [2012 - 3.6%]. As at March 31, 2013, there was \$995 outstanding under these facilities [December 31, 2012 - nil]. The facilities mature March 8, 2016 or three months prior to the maturity date of the convertible unsecured subordinated 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 prime to prime plus 1.0% based on performance calculations. As at March 31, 2013, term loans of U.S. \$10,530 were outstanding [December 31, 2012 - 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, 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 March 31, 2013 and December 31, 2012, Ag Growth was in compliance with all financial covenants.

#### 14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

	March 31, 2013	December 31, 2012
	\$	\$
Principal amount	114,885	114,885
Equity component	(7,475)	(7,475)
Accretion	4,589	4,211
Financing fees, net of amortization	(1,822)	(2,063)
<b>Convertible unsecured subordinated debentures</b>	<b>110,177</b>	<b>109,558</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 three-month period ended March 31, 2013, no Debentures were exercised [year ended December 31, 2012 - nil]. As at March 31, 2013, Ag Growth has reserved 2,554,136 common shares for issuance upon conversion of the Debentures.

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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 18]. 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 three-month period ended March 31, 2013, the Company recorded accretion of \$378 [2012 - \$351], non-cash interest expense related to financing costs of \$241 [2012 - \$222] and interest expense on the 7% coupon of \$2,010 [2012 - \$2,010]. The estimated fair value of the holder's option to convert Debentures to common shares in the amount of \$7,475 has been separated from the fair value of the liability and is included in shareholders' equity, net of income tax of \$2,041, and its pro rata share of financing costs of \$329.

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**15. INCOME TAXES**

The major components of income tax expense for the three-month periods ended March 31, 2013 and 2012 are as follows:

**Unaudited interim condensed consolidated statement of income**

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Current tax expense</b>		
Current income tax charge	471	639
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1,206	1,202
<b>Income tax expense reported in the unaudited interim condensed consolidated statement of income</b>	<b>1,677</b>	<b>1,841</b>

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

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Deferred tax related to items charged or credited directly to other comprehensive income during the period</b>		
Unrealized gain (loss) on derivatives and available-for-sale investment	(505)	234
Exchange differences on translation of foreign operations	190	(254)
<b>Income tax charged directly to other comprehensive income</b>	<b>(315)</b>	<b>(20)</b>

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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 March 31, 2013</b>	<b>As at December 31, 2012</b>
	\$	\$
Inventories	(88)	(88)
Property, plant and equipment and other assets	(11,761)	(11,549)
Intangible assets	(12,982)	(12,909)
Deferred financing costs	(126)	(117)
Accruals and long-term provisions	1,462	1,453
Tax loss carryforwards expiring between 2020 to 2029	14,296	14,831
Investment tax credit carryforward expiring between 2025 and 2030	4,880	4,880
Canadian exploration expenses	29,198	29,198
Capitalized development expenditures	(790)	(707)
Convertible debentures	(767)	(868)
Equity impact LTIP	291	885
Other comprehensive income	76	(429)
<b>Net deferred tax assets</b>	<b>23,689</b>	<b>24,580</b>
<b>Reflected in the statement of unaudited interim condensed consolidated financial position as follows</b>		
Deferred tax assets	32,883	33,621
Deferred tax liabilities	(9,194)	(9,041)
<b>Deferred tax assets, net</b>	<b>23,689</b>	<b>24,580</b>

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 incurred in its Finnish operations other than losses [1,321 Euros]. Accordingly, the Company has recorded a deferred tax asset for all deductible temporary differences as of the reporting date and as at December 31, 2012.



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As at March 31, 2013, there was no recognized deferred tax liability [December 31, 2012 - 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, 2012 - \$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 unaudited interim condensed consolidated financial statements.

There are no income tax consequences to the Company attached to the payment of dividends in either 2013 or 2012 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 March 31, 2013 and December 31, 2012.

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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 statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant unaudited interim condensed consolidated statement of income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as at March 31, 2013 and December 31, 2012, including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at March 31, 2013 and December 31, 2012 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 March 31, 2013, Ag Growth's U.S. dollar denominated debt totalled U.S. \$35.5 million [December 31, 2012 - \$35.5 million] and the Company has entered into the following foreign exchange forward contracts to sell U.S. dollars and Euros in order to hedge its foreign exchange risk on revenue:

Settlement dates	Face value	Average rate
	U.S. \$	Cdn \$
April - December 2013	44,000	1.03
January - December 2014	61,000	1.04
January - February 2015	5,000	1.05

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Settlement dates	Face value	Average rate
	Euro	Cdn \$
August - December 2013	500	1.31
August - December 2014	500	1.33

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

The Company periodically enters short-term foreign exchange swap contracts to assist in the management of its cash positions. As at March 31, 2013, the Company had foreign exchange swaps outstanding of nil [2012 - U.S. \$5,000,000]. The fair value of the swaps was equal to their face amount and, as a result, no gain or loss was recorded in the three-month period ended March 31, 2012. The Company's foreign exchange swaps are not considered to be effective hedge contracts for accounting purposes and, accordingly, any future gains or losses would be recognized as a foreign exchange gain or loss on the unaudited interim condensed consolidated statement of income.

Ag Growth's sales denominated in U.S. dollars for the three-month period ended March 31, 2013 were U.S. \$38.6 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. \$26.9 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$3.8 million increase or decrease in sales and a total increase or decrease of \$2.7 million in its cost of goods sold and its selling, general and administrative expenses. In relation to Ag Growth's foreign exchange hedging contracts, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$0.9 million increase or decrease in the foreign exchange loss and a \$11 million increase or decrease to other comprehensive income.

The counterparty to the contracts are three multinational commercial banks and therefore credit risk of counterparty non-performance is remote. Realized gains or losses are included in net earnings, and for the three-month period ended March 31, 2013, the Company realized a gain on its foreign exchange contracts of \$244 [2012 - loss of \$236].

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The open foreign exchange forward contracts as at March 31, 2013 are as follows:

	Notional amount of currency sold \$	Notional Canadian dollar equivalent		
		Contract amount \$	Cdn \$ equivalent \$	Unrealized gain (loss) \$
U.S. dollar contracts	110,000	1.02	112,232	(286)
Euro contracts	1,000	1.32	1,323	1

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 statement of income.

The cash flow hedges of the expected future sales were assessed to be highly effective and a net unrealized loss of \$285 [2012 - \$533], with a deferred tax asset of \$76 [2012 - \$141] relating to the hedging instruments, is included in accumulated other comprehensive income.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as Ag Growth regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. Ag Growth's Series A secured notes and convertible unsecured subordinated debentures outstanding as at March 31, 2013 and December 31, 2012 are at a fixed rate of interest. As at March 31, 2013 and December 31, 2012, the Company had outstanding \$10,530 of U.S. dollar term debt at a floating rate of interest. A 10% increase or decrease in the Company's interest rate would result in an increase or decrease of \$10 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 unaudited interim condensed consolidated statement of financial position.

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Accounts receivable are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. The Company regularly monitors customers for changes in credit risk. 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 March 31, 2013, the Company had one customer [December 31, 2012 - two customers] that accounted for approximately 12% [December 31, 2012 - 17%] of all receivables owing. The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Company does not hold collateral as security.

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

**Liquidity risk**

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

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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 unaudited interim condensed consolidated financial statements:

	March 31, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Loans and receivables				
Cash and cash equivalents	—	—	2,171	2,171
Restricted cash	52	52	34	34
Accounts receivable	52,467	52,467	51,856	51,856
Available-for-sale investment	2,000	2,000	2,000	2,000
Derivative instruments	405	405	1,611	1,611
<b>Financial liabilities</b>				
Other financial liabilities				
Bank indebtedness	995	995	—	—
Interest-bearing loans and borrowings	35,712	38,702	34,923	38,082
Trade payables and provisions	24,583	24,583	19,771	19,771
Dividends payable	2,666	2,666	2,510	2,510
Derivative instruments	690	690	—	—
Convertible unsecured subordinated debentures	110,177	113,174	109,558	113,501

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

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

- Cash and cash equivalents, restricted cash, accounts receivable, 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.

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- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and one option embedded in a convertible debt agreement. The most frequently applied valuation technique includes forward pricing, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties and foreign exchange spot and forward rates.

**17. CAPITAL DISCLOSURE AND MANAGEMENT**

The Company'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.

Ag Growth 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 is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities and as at March 31, 2013 and December 31, 2012, all of these covenants were complied with [note 13].

The Board of Directors does not establish quantitative capital structure targets for management, but rather promotes sustainable and profitable growth. Quantitative capital structure targets were disclosed in reporting periods prior to December 31, 2012. Management monitors capital using non-GAAP financial metrics, primarily total debt to the trailing twelve months EBITDA and net debt to total shareholders' equity. There may be instances where it would be acceptable for total debt to trailing EBITDA to temporarily fall outside of the normal targets set by management such as in financing an acquisition to take advantage of growth opportunities or industry cyclicality. This would be a strategic decision recommended by management and approved by the Board of Directors with steps taken in the subsequent period to restore the Company's capital structure based on its capital management objectives.



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**18. RELATED PARTY DISCLOSURES**

**Relationship between parent and subsidiaries**

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

**Other relationships**

Burnet, Duckworth & Palmer LLP ["BDP"] provides legal services to the Company and a Director of Ag Growth is a partner of BDP. The total cost of these legal services in the three-month period ended March 31, 2013 was \$19 [2012 - nil] and this amount is included in accounts payable and accrued liabilities as at March 31, 2013. These transactions are measured at the fair value and were incurred during the normal course of business.

**19. PROFIT PER SHARE**

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

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

	<b>March 31, 2013</b>	<b>March 31, 2012</b>
	\$	\$
Net profit attributable to shareholders for basic and diluted profit per share	<b>3,399</b>	5,299
Basic weighted average number of shares	<b>12,531,106</b>	12,471,648
Dilutive effect of DDCP	<b>16,997</b>	23,166
Dilutive effect of LTIP	<b>30,326</b>	74,348
Dilutive effect of PSU	<b>110,000</b>	—
Dilutive effect of RSU	<b>150,000</b>	—
Diluted weighted average number of shares	<b>12,838,429</b>	12,569,162
Profit per share - basic	<b>0.27</b>	0.42
Profit per share - diluted	<b>0.26</b>	0.42

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

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

## 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 provided internally to the CEO, who is Ag Growth's Chief Operating Decision Maker ["CODM"]. When making resource allocation decisions, the CODM evaluates the operating results of the consolidated entity.

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

	Revenue		Property, plant and equipment, goodwill, intangible assets and available-for-sale investment	
	Three-month period ended March 31, 2013 \$	Three-month period ended March 31, 2012 \$	As at March 31, 2013 \$	As at December 31, 2012 \$
Canada	<b>16,689</b>	19,437	<b>146,861</b>	148,781
United States	<b>36,851</b>	44,666	<b>62,516</b>	61,954
International	<b>6,007</b>	8,252	<b>8,298</b>	8,295
	<b>59,547</b>	72,355	<b>217,675</b>	219,030

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 revenue.

## 21. COMMITMENTS AND CONTINGENCIES

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

As of the reporting date, the Company has entered into commitments to purchase property, plant and equipment of \$6.2 million, of which, deposits of \$741 were made as at March 31, 2013.

### [b] Letters of credit

As at March 31, 2013, the Company has outstanding letters of credit in the amount of \$1,019 [December 31, 2012 - \$1,354].

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**[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:

	\$
Remaining within the current year	1,010
After current year but not more than five years	2,825
	<u>3,835</u>

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

During the three-month period ended March 31, 2013, the Company recognized an expense of \$286 [2012 - \$246] 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.